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EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON
EXPORT PROMOTION AND MARKET DEVELOPMENT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESSES

APRIL 7, 1983

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April 7, 1983:

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EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESSES

THURSDAY, APRIL 7, 1983

U.S. SENATE,
SUBCOMMITTEE ON EXPORT PROMOTION AND
MARKET DEVELOPMENT,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:15 a.m., in room SR428A, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senator Boschwitz.

Staff present: Anne H. Sullivan, professional staff member; Tim Bergan, legislative aid to Senator Boschwitz; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA, AND CHAIRMAN, SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT

Senator BOSCHWITZ. We welcome you, Mr. Draper, to the Small Business Committee's hearing on export promotion and market development as it exists through the Export-Import Bank. We have great interest in the activities of your bank, which we admire. However, we note that the small business part of the activities of the Bank, for one reason or another, does not seem to be as extensive as we would all like to see it. It is with that in mind that we hold these hearings. We need to see how the activities of the Bank can be expanded and made even more aggressive. This is necessary if we are to achieve the goal of having small businesses aid in overcoming some of the export-import imbalances that we experience in this country.

So we welcome you this morning and look forward to receiving your testimony.

At this point we will receive the statement of Senator Huddleston.

[The prepared statement of Senator Huddleston follows:]

STATEMENT OF

SENATOR WALTER D. HUDDLESTON

APRIL 6, 1983

MR. CHAIRMAN, I THANK YOU FOR SCHEDULING THIS HEARING TO EXAMINE THE EFFECTIVENESS OF THE EXPORT-IMPORT BANK'S FINANCING PROGRAMS IN MEETING SMALL BUSINESS EXPORTING NEEDS. THIS IS AN ONGOING EFFORT ON THE PART OF OUR SUBCOMMITTEE TO PROMOTE AND ENCOURAGE THE PARTICIPATION OF SMALL BUSINESSES IN THE EXPORT MARKET.

EXPORTING IS EXTREMELY IMPORTANT TO THE RECOVERY OF OUR ECONOMY AND TO ITS CONTINUED VITALITY. INCREASED EXPORTING MEANS JOBS FOR MANY OF OUR 12 MILLION UNEMPLOYED AND FOR THE MILLIONS WHO WILL ENTER OUR LABOR MARKET IN THE COMING YEARS.

ALTHOUGH EXPORTING IS NOT A PANACEA FOR OUR ECONOMIC ILLS, IT IS A CRUCIAL ELEMENT OF OUR NATIONAL ECONOMIC POLICY. BECAUSE IT IS SUCH A VITAL INGREDIENT, WE CAN NO LONGER BE CONTENT WITH A SITUATION WHEREBY ONLY 12 PERCENT OF THE NATION'S APPROXIMATELY 250,000 MANUFACTURERS ARE EXPORTERS.

MORE MUST BE DONE TO ENCOURAGE GREATER PARTICIPATION AND I AM CONVINCED THAT A SIGNIFICANT CONTRIBUTION CAN BE MADE BY SMALL BUSINESSES. A RECENT GAO STUDY FOUND THAT AN ESTIMATED 11,000 NON-EXPORTING MANUFACTURERS "WERE BOTH CAPABLE OF EXPORTING AND COULD PROBABLY BE INDUCED TO TRY EXPORTING IF THEY WERE PROPERLY APPROACHED AND ASSISTED." THE VALUE OF THESE NEW EXPORTS WOULD ADD UP TO WELL OVER $4 BILLION ANNUALLY.

IF THIS POTENTIAL EXISTS, AS THE GAO AND OTHER STUDIES INDICATE, THEN WE WOULD BE DERELECT IN OUR DUTIES IF WE DID NOT PURSUE EVERY POSSIBLE MEANS OF BRINGING THESE 11,000 BUSINESSES, MOST OF WHICH ARE SMALL, INTO THE EXPORTING MAINSTREAM OF OUR ECONOMY.

SINCE A KEY POSITION IN THE U.S. OFFICIAL EXPORT STRUCTURE IS FILLED BY THE EXPORT IMPORT BANK, IT IS ONLY APPROPRIATE THAT THIS SUBCOMMITTEE TAKE A CLOSE LOOK AT WHAT THIS INSTITUTION IS DOING TO MAKE SMALL BUSINESS EXPORTS MORE COMPETITIVE WITH FOREIGN PRODUCED GOODS.

On the surface, it appears that the Ex-Im Bank is being imaginative and aggressive in devising programs which are aimed at small businesses, and I commend it for its efforts. Last year Ex-Im set aside $100 million for a Small Manufacturers Discount Loan Program which will enable commercial banks to extend fixed-rate, medium term export loans.

The Small Business Export Credit Insurance Program gives protection against losses associated with exporting. And, there is a program that will assist small business through Export Trading Companies.

However, even though the Ex-Im Bank appears to be trying to be responsive to small business, it is not succeeding as much as we should expect. According to the Bank's own figures, only 13% of the total business on the Bank's books as of June 30, 1982 could be designated as small business support.

Although statistics such as this may be a little misleading, they nonetheless give some credibility to the accusation that the Bank is primarily interested in the big deals produced by big business.

THIS FAILURE ON THE PART OF THE BANK IN REGARD TO SMALL BUSINESS IS WELL DOCUMENTED BY THE EXPERIENCES OF SMALL BUSINESSES IN MY STATE OF KENTUCKY.

IN FY 1982 THE BANK SUPPLIED ASSISTANCE TO 2,261 BUSINESSES; NINE OF THESE 2,261 WERE FROM KENTUCKY. THESE NINE BUSINESSES WERE SUPPLIED SERVICES AMOUNTING TO $4.4 MILLION WHILE THE BANK HAD A TOTAL COMMITMENT OF OVER $8 BILLION. IN LIGHT OF THE FACT THAT KENTUCKY HAS OVER 600 PREDOMINANTLY SMALL BUSINESSES ENGAGED IN EXPORTING, I FIND THIS LEVEL OF ASSISTANCE INDEFENSIBLE.

AS FAR AS I CAN DETERMINE AT THIS TIME THERE ARE TWO BASIC PROBLEMS IN MY STATE. FIRST, MOST BUSINESSES THAT EXPORT OR WANT TO EXPORT KNOW LITTLE OR NOTHING AT ALL ABOUT THE SERVICES OFFERED BY THE EX-IM BANK. SECOND, THOSE THAT KNOW ABOUT THE EX-IM BANK HAVE FOUND IT TO BE INFLEXIBLE OR EXCESSIVELY SLOW IN RESPONDING TO THEIR NEEDS.

IF THE EXPORT IMPORT BANK IS GOING TO BE TRULY RESPONSIVE TO THE NEEDS OF SMALL BUSINESSES, BANK OFFICIALS MUST GET RID OF THE BIG BUSINESS MENTALITY THAT HAS DEVELOPED AS A RESULT OF THEIR PREVIOUS PREOCCUPATION WITH BIG BUSINESS.

THEY ARE GOING TO HAVE TO REALIZE THAT SMALL BUSINESSES CANNOT AFFORD TO HIRE THE HIGH PRICED TRADE EXPERTS WHO KNOW HOW TO BRING THE DEALS TO THE BANK'S DOORSTEP AND THAT THE BANK MUST BE MORE AGGRESSIVE IN TAKING ITS PROGRAM TO THE SMALL BUSINESS PERSON.

IN OTHER WORDS, BANK OFFICIALS ARE GOING TO HAVE TO TAKE OFF THEIR PIN STRIPE SUITS AND PUT ON THEIR WORKING CLOTHES IN ORDER TO REACH THE THOUSANDS OF POTENTIAL SMALL BUSINESS EXPORTERS IN KENTUCKY AND OTHER PARTS OF THE COUNTRY.

I BELIEVE THAT THE BANK CAN MAKE THIS TRANSITION AND I STAND READY TO WORK WITH IT IN ANY WAY POSSIBLE TO DEVELOP A TRULY COMPREHENSIVE SMALL BUSINESS EXPORT PROGRAM.

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES, ACCOMPANIED BY JAMES K. HESS, ACTING TREASURER-CONTROLLER OF THE EXPORT-IMPORT BANK

Mr. DRAPER. Mr. Chairman, I am pleased to appear before this subcommittee to discuss the Export-Import Bank's support of the small business community involved in exporting.

Eximbank has gained significant notoriety through the media as a big business bank. I, therefore, appreciate this opportunity to bring a clearer perspective of the overall picture before you. Without question, Eximbank has supported such sales as Boeing aircraft, General Electric locomotives, and Westinghouse turbines; however, we have also supported thousands of sales from small companies, such as Alaska Fertilizer Co., Electric Sound, and Music Man, Inc.

We estimate that fewer than half of the smaller American firms which have export sales potential are actually exporting. We believe small business concerns can develop a great deal more export business, earn themselves more profit, and contribute toward a stronger U.S. economy.

I would like to make one point, however, which I think is frequently overlooked when we talk about small business participation in the export sector. Most large export orders are made up of many component parts, and we know that small businesses—although many may not even know that they are manufacturing for export at the time—are supplying a substantial part of those orders as subsuppliers or subcontractors to the major exporting companies. Boeing, for example, in studies titled appropriately, "The Invisible Exporters," has identified over 2,600 small businesses all across the country that supply equipment and parts for their commercial airplanes, many of which are sold abroad with Eximbank financing support.

In fact, all Eximbank programs are available to small businesses. In practice, however, the smaller exporter generally uses our programs designed to assist exports sold on short term; that is, with repayment in up to 180 days—and medium-term, which is repayment in 181 days to 5 years, because of the nature of the product or service being exported. These types of sales traditionally have been financed in the United States through the private sector, with Eximbank assuming the repayment risks inherent in export sales or assuring the commercial banks of liquidity against their fixed-term financing offers. Thus, which Eximbank program is most suitable to a small business export sale generally depends on the nature of the product, the repayment term required, and to some extent the amount of the sale.

We believe that competitive financing is available under all of Eximbank's programs, including those designed to assist the types of sales made by the smaller companies, but I would like to outline our programs which are specifically structured to help small business exports.

The small manufacturers' discount loan program is designed to assist commercial banks to meet small firms' needs for fixed-rate financing of products normally sold on terms of 1 to 5 years. Eligi-

bility is limited to products of companies with annual gross sales of $25 million or less. Under this program, maximum contract value is $2.5 million, and the interest rate we are charging now is 10 percent for sales in poor countries, 10.85 percent in intermediate countries, and 12.15 percent in rich countries, plus 1 percent for the bank involved in the transaction.

The base rates charged by Eximbank are the minimums set for 1 to 5 year transactions in the OECD arrangement on officially supported export credits for exports from all 22 nations participating in this international agreement.

Senator BOSCHWITZ. The rates you just quoted are for 1 to 5 years?

Mr. DRAPER. That is correct. As a special help for the smaller exporter in this program, unlike our other loan programs, we do not require proof of subsidized foreign competition, and we cover a full 85 percent of the contract value of the sale.

For this small manufacturers' program, we have a specific budgeted amount of $100 million in both fiscal years 1983 and 1984. Although we have not turned down any application this year, we have used only some $15 million of this amount to date because of the general worldwide decline in demand for U.S. exports and resulting decline in financing requests under all of our programs.

Our special small business insurance policy is an entry mechanism for small business and offers greater risk protection for companies new to export than for established exporters. In order to qualify for the small business policy, a company must have $2 million or less net worth, have annual export sales of $750,000 or less average over the last 2 years, and not have used FCIA or Eximbank since 1976.

The advantages to this program are substantial. The first year's minimum annual premium is only 25 percent of that charged established exporters using our standard policy and increases gradually over the remaining 5 years. There is no deductible for the first 2 years, and the deductible gradually increases from the third to the sixth year to ease the transition into the regular program. The policy covers 100 percent of political risks of nonpayment. During the first 2 policy years, it covers 95 percent of the commercial risk and 90 percent thereafter.

Since this policy is considered an entry mechanism for firms with little or no export experience, there is an automatic graduation to our regular policy should a company's export sales reach $1 million prior to the sixth year.

In addition to the special small business insurance policy, small businesses can also use our regular short- and medium-term insurance programs and the medium-term commercial bank guarantee program. Under the latter program, Eximbank issues guarantees to U.S. commercial banks which extend medium-term financing for exports of capital equipment by American businesses.

Eximbank's newest program is known as the export trading company loan guarantee program. Although this program was established pursuant to the Export Trading Company Act of 1982, in accordance with the provisions of the act it is open to a variety of exporters as well as export trading companies. It is designed to assist the U.S. exporter to obtain short-term working capital loans

which should be particularly helpful to small businesses trying to export. For the first time, we are looking at the domestic exporter for our required reasonable assurance of repayment.

Since our Board of Directors approved the program on January 25 of this year, we have been very active in introducing and explaining the program. Our small business liaison officer has spoken to some 3,600 attendees at 12 of the introductory seminars on the export trading company program sponsored by the Department of Commerce. He has also participated in a conference call to all of the Small Business Administration's trade specialists, as well as forwarding literature to be used in the district offices of both the SBA and the Department of Commerce.

A mailing of Eximbank's small business program brochure, which I would ask to be included in the record, is going out to some 14,000 small manufacturing companies, some 10,000 banks, and numerous small business associations.

Eximbank has only one location and approximately 350 employees. We, therefore, have to use all available resources to assist us in reaching the business community, and for small businesses we work especially with the Department of Commerce and the Small Business Administration. The role of export promotion and instruction in export documentation is appropriately handled by the International Trade Administration of the Department of Commerce.

Eximbank, however, does provide considerable information and counseling for all exporters but particularly for small business. We have a small business hotline telephone, whose number is 800-424-5201, which exporters or would-be exporters who need information and guidance can use to discuss their particular situation and get advice on how to proceed. Since we began the hotline service in February 1979, more than 23,000 calls have been received, recorded, and processed by our staff. By far, the majority have been from smaller exporters with substantive export financing questions to be answered or problems to be solved.

Every month, Eximbank offers a 1-day briefing program which is open to representatives of small businesses. Usual attendance for these sessions is 15 to 20 persons, and selected speakers from the Bank provide a full description of the Bank's programs and services. Time is left so that individual consultations can take place as well.

We have already increased our marketing efforts directed toward small business, and we expect to undertake several additional initiatives in the months ahead to make sure that small businesses are aware of the support available from Eximbank and other sources to help them in exporting. In January, for example, we contacted each congressional office with information on our programs, including a suggested press release and newsletter item. Many offices participated in this effort, and we have since seen a measurable increase in calls on the toll free small business hotline in February and March. In fact, for the first time in history, we handled over 1,000 calls in a single month.

In February and March, we held our annual bankers' and exporters' conferences. These events generated record interest. Almost 400 people attended the bankers' conference and more than 500—the majority representing small- and medium-size business-

es—attended the exporters' conference 3 weeks ago. As part of the agenda for both meetings, we highlighted our efforts on behalf of small business, and we held workshops specifically on small business at the exporters' conference.

Because these meetings were so successful, and in response to the increased demand for information on our programs, we have decided to hold a number of conferences out of Washington during the coming months. While these conferences would not focus solely on small business, they would focus on the programs that would be most helpful to regional bankers and small- and medium-size businesses. We will make a special effort to encourage small businesses to attend and to participate. Clearly, by taking ourselves to our potential customers, we will be giving the smaller seller the kind of access that he or she might not have through a Washington-based program.

Finally, I think it is very important to stress that we have a board of directors with an intense interest in small business. I, myself, came out of that environment. We presently are exploring, at the highest levels, with other agencies how various existing programs or possible supplements to those programs could be better coordinated and communicated to small businesses. We are trying to assist businesses to get the information required and assistance, where needed, from the Government sector to get into the position to be able to export—actually to start exporting and to continue exporting in the future. For example, the Department of Commerce has some 370 people in 48 district offices of their U.S. and Foreign Commercial Service who are located in major commercial and industrial centers throughout the United States who are helping us reach out to small businesses and regional banks.

Mr. Chairman, in closing, I want to say that we believe that our present mandate to assist small business exporters is clear, and we believe that our efforts reflect our recognition of that mandate. We will continue to encourage small business to become involved in exporting with our assistance. Eximbank is committed to maintaining a strong initiative to assure small business the greatest possible consideration and export financing support within our general budget constraints.

Thank you, Mr. Chairman. I will be happy to answer any questions you or the other members of the subcommittee may have.

[The prepared statement of Mr. Draper follows:]

Statement of
William H. Draper III
President and Chairman
Export-Import Bank of the United States
Before the
Export Promotion and Market Development Subcommittee
Committee on Small Business
United States Senate

April 7, 1983

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before this subcommittee to discuss the Export-Import Bank's support of the small business community involved in exporting.

Eximbank has gained significant notoriety through the media as a "big business" bank. I therefore appreciate this opportunity to bring a clearer perspective of the overall picture before you. Without question, Eximbank has supported such sales as Boeing aircraft, General Electric locomotives, and Westinghouse turbines; however, we have also supported thousands of sales from small companies such as Alaska Fertilizer Company, Electric Sound, and Music Man, Inc.

The Export-Import Bank Act in Section 2(b) instructs the Bank to recognize the Government's policy, as stated in the Small Business Act, to counsel and assist small businesses. It also requires our Board to designate a small business officer who can advise us on the needs of small business exporters and, in conjunction with other agencies, advise small businesses on our programs to assist them in their exporting efforts.

We estimate that fewer than half of the smaller American firms which have export sales potential are actually exporting. We believe small business concerns can develop a great deal more export business, earn themselves more profits and contribute toward a stronger U.S. economy.

I would like to make one point, however, which I think is frequently overlooked when we talk about small business participation in the export sector. Most large export orders are made up of many component parts, and we know that small businesses -- although many may not even know that they are manufacturing for export at the time -- are supplying a substantial part of those orders as subsuppliers or subcontractors to the major exporting company. Boeing, for example, in studies called, appropriately, "The Invisible Exporters" has identified over 2,600 small businesses all across the country that supply equipment and parts for their commercial airplanes, many of which are sold abroad with Eximbank financing support.

As of September 30, 1982, Eximbank had supported over $3 billion in export sales made directly by small businesses through some 2,275 loan, guarantee and insurance authorizations. These small business sales represent 14 percent of the total number of authorizations and 3 percent of the dollar volume of export business assisted by the Bank. I would note that these figures take into account only those transactions in which a small business is the exporter of

record, not the many thousands of small business subcontractors or subsuppliers on large orders where the major contractor is listed on our books as the exporter of record.

In fact, all Eximbank programs are available to all size exporters, large or small. In practice, however, the smaller exporter generally uses our programs designed to assist exports sold on short-term (repayment in up to 180 days) and medium-term (repayment in 181 days to 5 years) because of the nature of the product or service being exported. These types of sales traditionally have been financed in the United States through the private sector with Eximbank assuming the repayment risks inherent in export sales or assuring the commercial banks of liquidity against their fixed-term financing offers. Thus which Eximbank program is most suitable to a small business export sale generally depends on the nature of the product, the repayment term required, and to some extent the amount of the sale.

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Eligibility is limited to products of companies with annual gross sales of $25 million or less. Under this program, maximum contract value is $2,500,000 and the interest rate we are charging now is 10 percent for sales in poor countries, 10.85 percent in intermediate countries, and 12.15 percent in rich countries, plus 1 percentage point for the bank involved in the transaction. The base rates charged by Eximbank are the minimums set for 1-5 year transactions in the OECD Arrangement on Officially Supported Export Credits for exports from all 22 nations participating in this international agreement. As a special help for the smaller exporter in this program -- unlike our other loan programs -- we do not require proof of subsidized foreign competition, and we cover 85 percent of the contract value of the sale.

For this Small Manufacturers' program, we have a specific budgeted amount of $100 million in both Fiscal Years 1983 and 1984. Although we have not turned down any application this year, we have used only some $15 million of this amount to date because of the general worldwide decline in demand for U.S. exports and resulting decline in financing requests under all of our programs.

Our special Small Business Insurance Policy is an entry mechanism for small business and offers greater risk protection for companies new to export than for established exporters. In order to

qualify for the Small Business Policy a company must have $2 million or less net worth, have annual export sales of $750 thousand or less average over the last two years and not have used FCIA or Eximbank since 1976. The advantages to this program are substantial. The first year's minimum annual premium is only 25 percent of that charged established exporters using our standard policy and increases gradually over the remaining five years. There is no deductible for the first 2 years, and the deductible gradually increases from the 3rd to the 6th year to ease the transition into the regular program. The policy covers 100 percent of the political risks of non-payment. During the first two policy years, it covers 95 percent of the commercial risks and 90 percent thereafter.

Since this policy is considered an entry mechanism for firms with little or no export experience, there is an automatic graduation to our regular policy should a company's export sales reach $1 million prior to the 6th year.

In addition to the special Small Business Insurance Policy, small businesses can also use our regular short and medium-term insurance programs and the medium-term Commercial Bank Guarantee Program. Under the latter program, Eximbank issues guarantees to U.S. commercial banks which extend medium-term (181 days to 5 years) financing for exports of capital and quasi-capital equipment by American businesses.

Eximbank's newest program is known as the Export Trading Company Loan Guarantee Program. Although this program was established pursuant to the Export Trading Company Act of 1982, in accordance with the provisions of that Act it is open to a variety of exporters as well as export trading companies. It is designed to assist the U.S. exporter to obtain short-term working capital loans, which should be particularly helpful to small businesses trying to export. For the first time, we are looking at the domestic exporter for our required "reasonable assurance of repayment."

Since our Board of Directors approved the program on January 25 of this year, we have been very active in introducing and explaining the program. Our Small Business Liaison Officer has spoken to some 3,600 attendees at 12 of the introductory seminars on the Export Trading Company Program sponsored by the Department of Commerce. He has also participated in a conference call to all of the Small Business Administration's trade specialists as well as forwarding literature to be used in the district offices of both SBA and the Department of Commerce.

A mailing of Eximbank's small business program brochure, which I would ask to be included in the record, is going out to some 14 thousand small manufacturing companies, some 10 thousand banks and numerous small business associations.

Eximbank has only one location and approximately 350 employees. We therefore have to use all available resources to assist us in

reaching the business community, and for small businesses we work especially with the Department of Commerce and the Small Business Administration. The role of export promotion and instruction in export documentation is appropriately handled by the International Trade Administration of the Department of Commerce.

I think it is important to recognize that small businesses must overcome two hurdles before Eximbank can start providing the assistance they need to export. First, for new small businesses, startup capital is necessary. SBA has programs which are designed to assist in fulfilling this need. They also certify Small Business Investment Corporations, which are venture capitalists ready to step into an equity position with promising small companies. Their Management Assistance programs are designed to educate the new-to-business person in the most effective and efficient means of running a business on a day-to-day basis.

Once established in the domestic marketplace, there is a new learning process related to international trade. How do you penetrate international markets? Where are the markets for your product? Do you have to have an export license? Why do you need a distributor in some countries and not in others? What is a Freight Forwarder? What are the normally accepted terms of an international transaction? What are the legal ramifications involved if you do not receive payment as promised or if you fail to meet your side of the agreement? These

are questions which a prudent business person should have answered before he does a deal, and the answers can be obtained through ITA at the Department of Commerce.

Eximbank, however, does provide considerable information and counselling for all exporters, but particularly for small business. We have a Small Business Hotline telephone line (800-424-5201) which exporters or would-be exporters who need information and guidance can use to discuss their particular situation and get advice on how to proceed. Since we began the Hotline service in February 1979, more than 23,000 calls have been received, recorded and processed by our staff. By far, the majority have been from smaller exporters with substantive export financing questions to be answered or problems to be solved.

Every month, Eximbank offers a one-day briefing program which is open to representatives of small businesses. Usual attendance for these sessions is 15 to 20 persons. Selected speakers present a full description of the Bank's programs and services. Time is left so individual consultations can take place.

We have already increased our marketing efforts directed towards small business and we expect to undertake several additional initiatives in the months ahead to make sure that small businesses are aware of the support available from Eximbank and other sources to help them in exporting. In January, for example, we contacted each Congressional office with information on our programs,

including a suggested press release and newsletter item. Many offices participated in this effort and we have since seen a measurable increase in calls on the toll-free Small Business Hotline in February and March. In fact, for the first time in history we handled over 1,000 calls in a single month.

In February and March we held our annual Bankers' and Exporters' Conferences. These events generated record interest. Almost 400 people attended the Bankers' Conference and more than 500 -- the majority representing small and medium size businesses -- attended the Exporters' Conference three weeks ago. As part of the agenda at both meetings, we highlighted our efforts on behalf of small business and we held workshops specifically on that topic at the Exporters' Conference.

Because these meetings were so successful -- and in response to the increased demand for information on our programs -- we have decided to hold a number of conferences out of Washington during the coming months. While these conferences would not focus solely on small business, they would focus on the programs that would be most helpful to regional bankers and small-and medium-size businesses. We will make a special effort to encourage small businesses to attend and participate. Clearly, by taking ourselves to our potential customers, we will be giving the smaller seller the kind of access that he or she might not have through a Washington-based program.

Finally, I think it is very important to stress that we have a Board of Directors with an intense interest in small business.

We presently are exploring at the highest levels with other agencies how various existing programs, or possibly supplements to those programs, could be better coordinated and communicated to small businesses. We are trying to assist businesses to get the information required and assistance where needed from the Government sector to get into the position to be able to export, to actually do it, and to stay in it. For example, the Department of Commerce has some 370 people in 48 district offices of their U.S. and Foreign Commercial Service located in major commercial and industrial centers throughout the United States who, we believe, can be some of the best resources for reaching out to small businesses and regional banks.

Mr. Chairman, in closing, I want to say that we believe that our present mandate to assist small business exporters is clear and we believe that our efforts reflect our recognition of that mandate. We will continue to encourage small business to become involved in exporting with our assistance. Eximbank is committed to maintaining a strong initiative to assure small business the greatest possible consideration and export financing support within our general budget constraints.

Thank you, Mr. Chairman. I will be happy to respond to questions.

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

SMALL BUSINESS HOT LINE
800-424-5201

CABLE ADDRESS "EXIMBANK"
TELEX 89-481

Eximbank Programs and Small Business

Eximbank

The Export-Import Bank of the United States (Eximbank) was created in 1934, and established as an independent U.S. Government Agency in 1945. The purpose of the Bank is "to aid in financing and to facilitate exports . . ."

The Bank offers a wide range of loan, guarantee and insurance programs to supplement and encourage the private sector financing of U.S. companies' foreign sales. The following programs are especially helpful to small companies, and to those that are new to exporting.

Export Trading Company Loan Guarantees

The Export Trading Company Act of 1982 directed the Bank to "provide guarantees for loans . . . when such loans are secured by export accounts receivable or inventories of exportable goods, and when in the judgment of the Board of Directors: (1) the private credit market is not providing adequate financing to enable otherwise creditworthy export trading companies or exporters to consummate export transactions; and (2) such guarantees would facilitate expansion of exports which would not otherwise occur."

To implement this directive, Eximbank has developed the ETC Loan Guarantee Program to guarantee export-related working capital loans to export trading companies and other exporters. It is expected that most of the working capital loans guaranteed by Eximbank will ultimately support exports from small, medium-size, and minority business or agricultural concerns.

Eligible Exporters: Eligible exporters are Export Trading Companies as defined in Sections 4(c)(14)(F)(I) of the Bank Holding Company Act of 1956 and other exporters. Eximbank will issue its guarantee to the lender if, in its sole judgment, the eligible exporter is deemed to be creditworthy for the loan or line of credit to be guaranteed. Eximbank will therefore require the following information on each exporter for the loan guarantee requested: (a) a summary of the exporter's business plan and history of activities; (b) two years of financial statements with cash flow projections; (c) at least two credit or bank reports; and (d) a summary of management's experience in related and non-related fields.

Note: For newly formed ETCs or other exporters, an opening balance sheet in addition to other pertinent financial data may be submitted in lieu of (a), (b), and (c) above.

Eligible Lenders: Generally, any financial institution or other public or private creditor will be eligible to apply for Eximbank's ETC Loan Guarantee. If Eximbank has no working experience with the creditor, two years of full financial data to include balance sheets, income statements, corporate ownership and a brief corporate history will be required to be submitted to Eximbank. An eligible lender must be able to demonstrate to Eximbank's satisfaction, the ability to perform and service loans to ETCs and exporters. Annual financial data should be submitted by the lender to Eximbank.

Eligible Loans: Eligible loans for the ETC Loan Guarantee program are specific loans or revolving lines of credit advanced by an "eligible lender" to an "eligible exporter" for export-related activities. The purpose of the loan must be clearly stated and it must be for a specific export-related activity.

Need for Eximbank's Guarantee: The applicant must demonstrate to Eximbank's satisfaction that the subject loan would **not** be made **without** Eximbank's guarantee. The applicant must show evidence that it approached and was subsequently turned down by a private financial institution **and** the reasons for the rejection.

The guarantee applicant must also state why the subject loan **cannot** be guaranteed by the Small Business Administration under its Export Revolving Line of Credit Program (ERLC). It is Eximbank's intention not to compete with the SBA program but to supplement it. The terms of the guaranteed loan will generally range from one month to twelve months but may be of longer duration if required.

The Guarantee: The guarantee will cover only loans used for export related activities and will have generally a term of one to twelve months as requested by the lender. The guarantee will be for 90 percent of the principal amount of the loan and will cover interest up to the lesser of (1) the stated rate of the loan or (2) one percent above the U.S. Treasury borrowing rate for comparable maturities up to the date of default. The lender will be at risk for 10 percent of the principal amount of the loan, interest in excess of the guaranteed rate, and late interest, if any.

Collateral: Eximbank will require that the "eligible lender" be secured with (a) inventory of exportable goods or (b) accounts receivable on goods or services already exported or (c) any combination of (a) and (b). Such security must have a value, as determined by the lender and Eximbank, of not less than 110 percent of the outstanding loan balance.

Lenders' Interest Rates and Fees: Eximbank will **not** impose any interest rate or fee rate ceiling on the lender for guaranteed loans, however, it will monitor the rates and fees being charged.

Eximbank's Guarantee Fee: Eximbank's guarantee fee will be calculated against the lender's loan amount as follows:

Maturity of Loan	Fee
Up to 180 days	1.0 percent
181 days to 1 year.	1.5 percent
Over 1 year	.5 percent for each additional 6 months

Small Manufacturers' Discount Loans

The Small Manufacturers' Discount Loan Program enables U.S. commercial banks to extend fixed-rate, medium-term export loans by providing standby assurance that the bank can borrow from Eximbank against the outstanding value of a medium-term foreign debt obligation. Commercial banks are reluctant to provide fixed interest rates on medium-term transactions because of the substantial fluctuations in their cost of funds. In many instances, however, fixed-rate financing is necessary for the U.S exporter to obtain a foreign order.

For this program only, small manufacturers are defined as companies which, together with all affiliates, subsidiaries and parent companies, had total gross annual sales of $25 million or less in the previous fiscal year. (Evidence of sales volume and company affiliations must be submitted with the application.)

If a bank (as exporter of record) or supplier, agent, export management company, export trading company, etc., is selling products of a "small manufacturer," the transaction will be eligible under this program if the eligibility of the manufacturer of the products is established.

Eximbank will issue advance commitments to make fixed-rate loans to eligible U.S. commercial banks when the applicant bank is not prepared to offer fixed-rate financing unless Eximbank provides a discount commitment.

Eximbank's loan commitment covers up to 85 percent of the contract price of an export sale financed by the U.S. bank on terms ranging from 366 days to 5 years. Eximbank will either commit to make a discount loan to the bank secured by the bank's promissory note to Eximbank or, it will commit to purchase the foreign debt obligation from the U.S. bank. In either case, Eximbank will have full recourse on the U.S. bank for the amount of the loan.

Eximbank's loan commitment provides the applicant bank with the assurance that it can fund its own fixed-rate loan with Eximbank should interest rates and its cost of money rise. The loan may be prepaid at any time without penalty.

The Small Manufacturers' Discount Loan Program is a standby mechanism. A bank will usually request disbursement from Eximbank when its alternative cost of funds is greater than Eximbank's committed discount loan rate. A commercial bank may draw on the discount loan only once for each commitment and only after shipment has gone forward. Multiple disbursements may be made to accommodate multiple shipments.

Eximbank's lending rate on a discount commitment is generally one percent below the interest rate yield to the applicant bank on the foreign debt obligations but not less than the Minimum Discount Lending Rate (MDLR) in effect at time of approval. Eximbank's current MDLR is 10 percent for exports to poor countries, 10.85 percent for exports to intermediate countries, and 12.15 percent for exports to rich countries.

Applications must be accompanied by a commitment fee in the form of a check which will not be refunded unless Eximbank denies the application. Eximbank's commitment fee is a one-time, front-end fee which is based on the amount of the discount loan commitment and the total term, including the full shipping period. On a five-year foreign obligation with a one-year shipping period, the fee would be $.65 per $100 of the loan amount. In the event there is a bid situation, Eximbank will allow the applicant bank to pay the fee up to 30 days **after** the contract is awarded but not later than 120 days from the date of Eximbank's commitment letter. A copy of the **bid invitation must be submitted with the application.**

Eximbank limits its aggregate discount loan commitments per foreign buyer (and all affiliates) to $10 million in each fiscal year. There is a maximum contract value limitation per sale of $2.5 million.

Medium-Term Credit Program

Starting October 1, 1982, Eximbank introduced a medium-term loan program. The purpose of this facility is to provide fixed interest rate support for those medium-term export sales that are facing subsidized, officially supported export credit competition from abroad.

Eximbank will make a fixed interest rate loan commitment to a U. S. bank that is financing the export sale and will loan its funds to the U.S. bank. The guidelines, fee rates, and internal administration of this new program will be nearly identical in every respect to the Small Manufacturers' Discount Loan Program except as follows:

Evidence of Competition: Unlike the Small Manufacturers' Discount Loan Program, evidence of subsidized foreign officially supported export credit competition must accompany each request.

The U.S. suppliers and the applicant banks must submit the **best** information available regarding the existence of the subsidized foreign, officially supported export credit competition, preferably including the name of the foreign suppliers and the terms and interest rates they are offering. When specific identity of the foreign competitor, and/or its financing offer are not known, other means of indirectly establishing the reasonable assurance of subsidized official export credit competition will be pursued by Eximbank. If the sale involves an invitation to bid, a copy of the bid document must accompany the application for financing. Eximbank will develop additional information concerning official competition through the OECD information exchange.

Eligible Transactions: "Supplier Credit" transactions (products **not** projects) which are normally financed on one to five year terms; it is expected that the contract value of such transactions will not exceed $5 million; however, larger sales of products and/or longer terms may be eligible.

Advance Commitment Fee: The commitment fee is a one-time fee which is based on the amount of the medium-term loan offered by Eximbank. The total term of the commitment includes the shipping period and term of repayment. The calculation of the fee and the fee rates are identical to the fee rate calculation for the Small Manufacturers' Discount Program. All fees will be payable within 30 days after the U.S. exporter has won the contract but not later than 120 days from the date of Eximbank's commitment. Extensions of the fee payment date will be considered on a case-by-case basis.

Eximbank's Loan Percentage: The buyer must make a cash payment of 15 percent of the contract value. Eximbank normally will lend up to 65 percent with the remaining 20 percent financed by the applicant bank. Eximbank will consider increasing its loan to 75 percent providing the U.S. exporter is willing to match Eximbank's rate and term on the remaining 10 percent.

Commercial Bank Guarantees

Under the Commercial Bank Guarantee Program, the Export-Import Bank of the United States guarantees the repayment of medium-term export obligations acquired by U.S. financial institutions from U.S. exporters. The purpose of this program is to facilitate the export of U.S. capital and quasi-capital goods through the U.S. commercial banking system by assuming commercial and political risks that U.S. exporters or private financial institutions are unwilling or unable to undertake and to provide guarantees on terms competitive with those offered by foreign officially supported export credit agencies.

Eximbank is able to accomplish its objective by working closely with participating financial institutions located throughout the United States. Those financial institutions which are eligible to participate in the Commercial Bank Guarantee Program are U.S. commercial banks, Edge Act Corporations, Agreement corporations operating under Section 25 and 25(a) of the Federal Reserve Act, and U.S. branches and agencies of foreign banks.

The foreign country in which the buyer is located must be mutually agreeable to the financial institution and Eximbank. Coverage is presently available in over 140 countries.

Eximbank requires a 15 percent cash payment from the buyer. For the financed portion, Eximbank's guarantee covers 100 percent of the political risk and up to 85 percent of the commercial risk. Eximbank assumes all of the risk for political only coverage or sovereign risk transactions.

Repayment terms for medium-term export sales should not exceed those which are customary in international trade.

Eximbank does not specify the rate of interest to be borne by the obligor, but interest guaranteed will be limited to the lower of either the interest of the note or one percent above the effective rate of interest at the date of default for Treasury borrowings having the same maturity as the remaining term of the note. In the event of a claim, Eximbank will pay interest accrued to the date of default.

The commercial banks which use this program are experienced professional international lenders who are relied upon to submit applications which have been analyzed and judged to be creditworthy. In recognition of this fact, when a bank has completed a number of satisfactory guaranteed export transactions, Eximbank will consider extending **Delegated Authority**, subject to prescribed conditions, to the commercial bank to commit Eximbank to specific transactions without obtaining prior Eximbank approval. Under Delegated Authority, commercial banks must retain 15 percent of the commercial risk.

Export Credit Insurance Program

The export credit insurance program is operated in cooperation with a private association known as the Foreign Credit Insurance Association. FCIA was created in 1961 to give U.S. exporters the means to become internationally competitive. It does this by insuring U.S. exports against commercial and political risks. Such coverage helps the exporter to offer credit terms and to obtain financing of foreign receivables.

FCIA's membership is comprised of some of the nation's leading insurance companies. The private insurance companies underwrite the commercial credit risks; Eximbank covers the political risks and reinsures certain excess commercial risk. In this way, the exporter obtains comprehensive protection against non-payment for its foreign receivables. By 1982, over 9,000 large, small and medium-size firms have used FCIA insurance services.

The benefits of FCIA coverage can be summarized as follows: (a) it protects the exporter against the failure of the buyer to pay his dollar obligation (or other currency, if so requested and approved) for commercial or political reasons; (b) it encourages the exporter to offer competitive terms of payment to foreign buyers; (c) it supports the exporter's prudent penetration of higher risk foreign markets; (d) it gives the exporter greater financial liquidity and flexibility in administering its foreign receivables portfolio.

Losses Covered

The reasons for nonpayment are numerous. Commercial defaults may result from economic deterioration in the buyer's market area, fluctuations in demand, unanticipated competition, shifts in tariffs, or technological changes. One of the principals or key management members of the buyer's company may die or become inactive causing the company to close. A buyer's own government or one of his major customers may alter purchasing patterns, or the buyer may be subject to an unexpectedly sharp increase in operating expenses. Natural disasters, such as floods and earthquakes, can also affect the ability of a buyer to operate in a market.

Superimposed upon an exporter's commercial risks are those risks of a political or noncommercial nature. Political risks are beyond the control of either buyer or seller. War, revolution, and insurrection are all legitimate fears of exporters. In the aftermath of political upheavals, the assets of a buyer may be confiscated, a shipment may be detained or diverted, or licenses may be revoked. In a different vein, growing balance-of-payment strains can choke the capacity of a country's central bank to convert the buyer's local currency into U.S. dollars.

Overall, the risks of extending credit to customers in other countries are typically much greater than the risks in granting credit to domestic buyers. The U.S. exporter needs to be insured against these risks, and FCIA helps. Policies offered are many and varied. Following appropriate consultation with FCIA/EIB personnel, the exporter can expect to have a policy tailor-made to his needs.

The Multibuyer Policies

There are four basic types of Multibuyer policies: The Short Term Master (SD), the Short Term Comprehensive Bank (BD), the Short Term-Medium Term Master (CMR), and the Medium Term Master Policy (MD).

SHORT TERM MASTER - This policy applies to shipments of products sold on terms of payment not exceeding 180 days to buyers in foreign countries. Its major provisions include a discretionary credit limit allowing independent credit decision-making and a deductible amount applied to first dollar commercial losses.

SHORT TERM COMPREHENSIVE BANK - This bank policy covers export sales transactions made to more than one buyer during a given year on terms of credit usually not exceeding 180 days. It is similar to the Short Term Master Policy in that it offers a discretionary credit limit and requires a commercial deductible. It also allows the ability to insure the specific business a bank does, such as Buyer Credits, Supplier Credits and Agricultural Commodities.

SHORT TERM-MEDIUM TERM MASTER - The CMR policy also is equivalent to the Master Policy, but covers both short and medium term credits. It was designed for the large volume exporter with multiple product lines, some of which qualify for medium term credit.

MEDIUM TERM MASTER - This policy is suited to the needs of the capital equipment exporter that maintains repetitive sales arrangements with dealers and distributors worldwide. The exporter receives continuous coverage on the medium term sales at more advantageous premium rates.

The Single Buyer Policies

These policies cover transactions between the insured and one buyer.

The Medium Term Single Sale (MTSS) policy is designed for capital/quasi-capital goods and their normal complement of spare parts of primarily U.S. manufacture, shipped to an end-user in countries covered and on acceptable terms depending on the size of the order. Usually there is 90 percent commercial/100 percent political coverage on the financed portion plus coverage on interest. Premium rates are listed on a published schedule.

The Combined Short Term-Medium Term (MSC) policy is designed for inventory financing of capital/quasi-capital goods and spare parts shipped to an exporter's overseas dealer/distributor.

The Medium Term Repetitive (MTR) policy covers repetitive shipments (during one year) of capital/quasi-capital goods (and their normal complement of spare parts) to either distributor for resale or an end-user utilizing the product in plant start-up or expansion. Coverage and terms are similar to the MTSS.

The Small Business Policy

Companies just beginning to export, or with only limited volume, can take advantage of FCIA's Small Business Policy. Although patterned after the Master Policy, the Small Business Policy gives added commercial risk protection of 95 percent, with no deductible, in order to further cushion any potential losses. To be eligible for a Small Business Policy, companies should meet the following criteria: have net worth not exceeding $2,000,000; have exported less than $750,000 per year, averaged over the prior two fiscal years; and not previously been insured either directly or indirectly under the FCIA program.

For Further Information: Office of Exporter Credits and Guarantees, (202) 566-8819. Office of Exporter Insurance, (202) 566-8955.

3-25-83

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

OFFICIAL BUSINESS

EXIMBANK - AN OVERVIEW

Created in 1934, Eximbank was established as a privately chartered corporation to aid in financing and facilitating U. S. exports by offering financing to foreign buyers that is competitive with that offered by other governments. In 1945 it was chartered by Congress as an independent agency.

Each year EXIM receives Congressional authority to lend a certain sum of money but receives no actual appropriation. The money EXIM lends never leaves the United States. The Bank simply provides competitive financing terms to attract foreign buyers to purchase U. S. goods rather than those made in other countries. EXIM gets its money by borrowing from the Federal Financing Bank at the cost of money to the Treasury plus a fee, and from revenues it receives from repayments of its loans and from other services. While not statutorily required to be self-sustaining, it has operated in a self-sustaining fashion since its inception.

In accordance with its mandate to provide competitive financing, EXIM offers a variety of services to U. S. exporters and financial institutions. The most important of these are direct loans, financial guarantees, exporter credit insurance, and discount loans.

Direct loans are dollar credits extended by Eximbank directly to foreign borrowers for purchases of U. S. goods. Although foreign buyers are the borrowers, the funds are disbursed to the exporter--usually at the time of the shipment of the goods being exported. The foreign buyer repays the loan to Eximbank in U. S. dollars.

Guarantees are assurances to private financial institutions that finance U. S. exporters that their loans will be repaid. Generally, the foreign buyer must put down 15 percent, the commercial bank lends 5-10 percent at its own risk, and Eximbank guarantees the balance.

Credit insurance is provided to exporters of U. S. goods to protect them against the political and commercial risks inherent in foreign trade transactions. The insurance is provided by Eximbank in cooperation with the Foreign Credit Insurance Association (FCIA), a group of 50 U. S. insurance companies. FCIA underwrites the commercial credit risks such as the foreign buyer's insolvency; EXIM insures against political risks such as war, confiscation, expropriation, and the revocation of import licenses.

Discount loans are advance commitments to discount export debt obligations which U. S. commercial banks acquire. Eximbank assures the private lender that additional funds will be available should they be needed during the full maturity of the obligation.

By far the largest of Eximbank's operations is its direct lending program. The maturity on the direct loans averages around 7 years. Most of these loans go to finance exports of large U. S. corporations for capital goods, especially aircraft and machinery. In 1980, for example, 27 percent of the Bank's loans went to finance Boeing exports; another 40 percent went to Westinghouse, Combustion Engineering, McDonnell Douglas, Western Electric, Lockheed, and General Electric.

EXIM'S SMALL BUSINESS PROGRAMS

In October, 1982, EXIM set aside $100 million for a Small Manufacturers Discount Loan Program which allows commercial banks to lend up to 85 percent of the cost of the transaction to foreign buyers. This program enables banks to extend fixed-rate, medium-term (1-5 years) export loans by providing stand-by assurance that the bank can borrow from Eximbank against the outstanding value of a medium-term foreign debt obligation. Banks are authorized to lend up to $2.5 million per sale by the small manufacturer ($25 million or less in gross annual sales). Loan commitments per foreign buyer are limited to $10 million in each fiscal year.

The interest rates for this program were reduced in January of this year (3 months after the program's inauguration). Under the new schedule, the interest charge ranges from 10 percent for loans to relatively poor countries to 12.15 percent for loans to relatively rich nations.[1] (The previous rates ranged from 11 percent to 12.4 percent.) This reduction in rates makes EXIM more competitive with other countries' financing. However, U. S. commercial banks are allowed to add 1 percent over and above these rates. Small businesses argue that this extra percentage point keeps them at a competitive disadvantage. (This could be one of the reasons the program has not been more widely used: as of April 1, 1983--6 months after its inception--only $16.8 million of the $100 million set-aside had been used.[2])

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[1] These rates are now identical to those authorized by the International Organization for Economic Cooperation and Development (OECD). According to the OECD charter, no nation is supposed to offer rates below the minimum prescribed.

[2] In October, 1.1 million was spent (5 transactions); in November, 1.3 million (10 transactions); in December, 1.9 million (6 transactions); in January, 4.1 million (10 transactions); in February, $700,000. (3 transactions); and in March, 7.7 million (12 transactions). While March by itself represents a substantial uptick, when coupled with February it provides insufficient evidence of any real change in the funding pattern.

EXIM also offers small businesses a special Export Credit Insurance Program which is operated in cooperation with the Foreign Credit Insurance Association (FCIA). This program provides commercial risk protection of 95 percent with no deductible. To be eligible for a small business policy, companies must meet the following criteria: have net worth not exceeding $2 million; have exported less than $750,000 per year, averaged over the prior two years; and not previously been insured under the FCIA program. Since September 1978, only 458 small businesses have been issued policies under this program. (This represents approximately 100 policies per year.)

An additional program which EXIM claims will benefit small businesses is its new loan guarantee program to help export trading companies and other exporters. This program was established pursuant to the ETC Act which directs EXIM to assist small and medium-sized exporters through the provision of export financing. Specifically, this program provides guarantees of working capital loans to U. S. exporters. According to Chairman Draper's testimony before the Senate Subcommittee on International Finance and Monetary Policy (March 22, 1983), "most of the working capital loans guaranteed by Eximbank are expected to support exports from small, medium-size and minority businesses."

COMMENTS

While EXIM can legitimately argue that it has a number of programs available for small businesses, these programs have not been widely used. Part of the reason may be that the small business community is unaware of them. Even EXIM agrees (in conversation with staff) that more needs to be done to promote these programs. Assistant Secretary for Trade Development, Department of Commerce--William H. Morris--summed up this problem when testifying before the Senate Banking International Finance Subcommittee (March 22, 1983). Morris said: "What's really needed is a sales and marketing program on the part of Eximbank to show the small and medium-sized companies what's available at EXIM and how to go about receiving that funding."

The promotion of such a program is one of the ways the Small Business Export Promotion and Market Development Subcommittee could render assistance to small exporters.

Senator BOSCHWITZ. I listened with interest to your testimony. It would appear, listening to the testimony, that a great number of your activities are directed at small businesses. So it is surprising to note that you do not seem to make many loans in that area. You are authorized to make $100 million in loans; is that correct?

Mr. DRAPER. In the discount loan program alone. I might add that we right now have on the books authorizations that are related to $3 billion of contract value for small businesses. That does not mean this is a cumulative number that includes all the transactions we have ever done for small business, but these are the ones that are currently on the books, involving some 2,275 transactions that have 805 active small suppliers. The total number of transactions related to small business are 14 percent of the total. So, where small businesses, those with under 100 employees, account for 3 percent of America's exports, I think we are doing our part.

Senator BOSCHWITZ. That is supportive of your testimony that small business sales represent 14 percent of the total number of authorizations in your bank?

Mr. DRAPER. That is correct.

Senator BOSCHWITZ. And 3 percent of the dollar volume of the export business assisted by the Bank?

Mr. DRAPER. That is right.

Senator BOSCHWITZ. That lends credence to some people who say that it is a bank for big business, if only 3 percent of your loans are made to small businesses.

Mr. DRAPER. Sir, we are related to exports. According to our numbers, those companies that have under 100 employees account for some 3 percent of the exports nationwide. We are participating fully proportionately. You can interpret that two ways. Most of the exporters that do most of the volume are our larger businesses. Some 25 or 30 percent of the companies in the country account for 97 percent of the total exports. This is fairly standard. We are not a small business agency, I agree, but on the other hand, when we help some of these larger exporters, we are certainly helping small business because many of their products are assembled with the help of small manufacturers who may not even know they are exporting.

Senator BOSCHWITZ. I understand that is the rational. But, we have listened to 10 pages of testimony that seem to say that you are making every effort. While I agree you have 350 employees and a large banking institution, listening to your testimony I felt that you had made every effort, from this agency and that agency, in coordinating and holding meetings and sending out materials. But you have only come up to the average of 3 percent.

Mr. DRAPER. I know it is very difficult for a small bank, and we are really a small bank, in the sense of numbers of people. It is very difficult for us to reach out when we have to do it through other agencies like the SBA, which is set up to do that, and the Commerce Department that is stationed around the country. We are trying very much to work through them in order to be as efficient as possible. It would not be practical for us to have an office in every city in the country to try and encourage small business to export because the yield just would not be good enough. But we are

trying to make our programs available. We recognize that marketing is our biggest problem in reaching them. We are trying new ideas all the time. We have assigned a special department man to head that, who joined us in the last year, and we are just working the problem. But we recognize that it is easier said than done to reach the potential exporters. We certainly do not feel we are covering the entire potential, We are trying, but it is not easy to do that. There are some 25,000 exporters, and most of them are larger businesses. I have forgotten how many total small businesses there are in the country, but there must be 2½ million or something on that order.

Senator BOSCHWITZ. You say you come from a small business background?

Mr. DRAPER. Yes, I do.

Senator BOSCHWITZ. You added, "I, myself, come out of that environment." What is your small business background?

Mr. DRAPER. I founded a small company, a small business investment company, in California with another man. We reorganized a little later into a partnership form, not under the SBIC program, and we formed a venture capital firm that sponsored several hundred small companies directly and helped quite a few beyond that, mostly in the technology fields. We were out in California and participated in the growth of a lot of small businesses.

Senator BOSCHWITZ. I believe, now that you mention it, I have heard that. Have any of those businesses become involved in exports?

Mr. DRAPER. I would say most of them. Not ones that Eximbank has participated in helping, to my knowledge, but I would say most of them do some degree of export, yes. You have to back off and recognize that most of the companies in the country do most of the exports through commercial banking, not Government banking, and that is the way it should be. I think back in 1946, our total financing was on the order of $2 billion to help exporters in the Eximbank. And at that same time, commercial banks were doing some $500 million of overseas financing. Today, American banks are doing some $340 billion, a growth of maybe 7,000 percent, whereas we have grown about 4 times. That is exactly the way we want it: Commercial banks are, I think, where the action ought to be. Our program is not to compete with commercial banks; it is to facilitate exports whenever they cannot fulfill the job. Many of these small companies and those I was participating in were selling products that were not so big and the payment was not so extended that they could not use a commercial bank to get financed on their exports.

Senator BOSCHWITZ. I agree with you that the commercial banking system is the prime source of borrowing for all of these purposes. We recognize that small businesses have more difficulty in exporting, so we have legislated specific programs to try to grease the way a little bit, including programs through your bank, including the joint FCIA-Eximbank small business insurance program. As I see from your testimony, not much of that authorized money has been used, and I understand that only about 100 policies a year have been issued under that program. It would appear that, despite

all the efforts that are being made, that you are not getting through to all these folks.

Mr. DRAPER. You are right, we are not getting through to all the folks. I wish we could. We have, under our small business insurance policy, grown though. As of September 30, 1978, we had only issued two insurance policies; in 1979, it was up to 116; and in 1980, it fell back to 101; in 1981, 92; but last year, we went up to 121 policies that were issued. Our cumulative policies over the course of its history are some 400 or 500, and as of September 30, 1982, it was 432. The policies in force at the end of each year have grown by September 30, 1982, to a total amount of $38 million that was insured. Those are not enormous numbers, but they are growing.

Senator BOSCHWITZ. Moderately. You have a good staff. You can pop off all the numbers very quickly.

Considering the number of firms involved, the volume of exports, and despite the fact that there is a fall-off in exports in general, the numbers are still very large nationally. It seemed again, with all the efforts—and I do not mean to belittle all the efforts you speak about in your prepared testimony—that the results in small businesses are not as successful as they might be. I suggest that you continue those efforts and perhaps increase them.

In the event that there is something that we should do from our end to help expedite your interrelationships with the agencies we would be glad to do it. Do you have any suggestions?

Mr. DRAPER. I think your continued encouragement, Mr. Chairman, is very helpful. I think it is important to urge us on, as a representative for small business, and I would just ask you to keep up the good work.

Senator BOSCHWITZ. Well, I come from a small business background. We did not export; we imported some things. In the event we can help you with some of the agencies, to see that they are more effective and more aggressive on your behalf or on behalf of this program, we would be happy to do that. We would hope that next time testimony is taken, the Eximbank not only exhorts us about all the activities they have underway through their own efforts and in conjunction with other agencies, but somewhat more of the Eximbank's loans could be above the average nationally. Whatever we can do to help we will. With all the Government agencies allegedly at work, we hope the results will improve in the future. In the event we can be of help in bringing about those results, we would be very happy to do so.

Thank you very much for coming today.

Mr. DRAPER. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Would the panel with Mr. Swenson and Mr. Werling please come forward.

[Recess taken.]

Senator BOSCHWITZ. We have Mr. Swenson from MITCO International, Inc., and Mr. Werling, from French Oil Machinery Co., Piqua, Ohio. We welcome you to the committee.

STATEMENT OF DOUGLAS E. SWENSON, VICE PRESIDENT AND TREASURER, MITCO INTERNATIONAL, INC., MINNEAPOLIS, MINN., ACCOMPANIED BY RICHARD W. HELDRIDGE, DIRECTOR, EXPORT-IMPORT BANK; JAMES E. YONGE, DIRECTOR, EXPORT-IMPORT BANK; AND GARRETT BOYD, SPECIAL ASSISTANT TO THE VICE CHAIRMAN, EXPORT-IMPORT BANK

Mr. SWENSON. Mr. Chairman, I am Douglas E. Swenson, vice president and treasurer of MITCO, a multinational trading company headquartered in Minneapolis, Minn. We are a small but growing general trading company, specializing in higher technology products and services. MITCO is a market-driven organization, having foreign buyers for American products.

We have American products to export. Export financing is the necessary ingredient to complete the transaction.

Senator BOSCHWITZ. Are you proceeding on the basis of your statement?

Mr. SWENSON. No, I am not. I will explain in a moment. I have submitted my prepared statement, which provides a more detailed background on MITCO, describes three major export financing problems facing small exporters, addresses Eximbank's historic role with small business, and provides recommended language changes for possible Eximbank charter revisions to benefit small business. I ask that this prepared statement be submitted for the record.

Senator BOSCHWITZ. Yes, it will be done. Why don't you summarize it, in as much detail as you wish.

Mr. SWENSON. That is what I plan on doing with one of the exhibits there that I will explain in greater detail, exhibit B.

I appreciate this opportunity to share with you some thoughts and concerns on Eximbank from the perspective of an export company. Mr. Draper has outlined this morning several fine small business programs which certainly is helpful, but I feel more can be done.

I have personally found representatives of Eximbank to be helpful in providing information regarding their programs, however there remains what I would call a coupling problem or a void between many such programs and the users. As a small example of such a void, it was mentioned this morning about a newsletter that had been sent out. The newsletter was entitled, "Eximbank Programs and the ETC Act of 1982."

It mentions in here the Export Trading Company Act loan guarantee program. Now, just as an example to test the waters, I had this flyer sent by one of the large banks I deal with, and it is not one of our investors. Our working capital comes from a different source, but I wanted to test the water, as I stated.

Within this newsletter it states, "The guarantee applicant must also state why the subject loan cannot be guaranteed by the Small Business Administration under its Export Revolving Line of Credit Program." The quote that I got back from the banker was, "If SBA can't handle this fellow, he really must be a basket case, so I sure hope one doesn't show up at my doorstep."

We certainly have some kind of a void between some of the programs that come out to the field and how they could be implemented.

Senator BOSCHWITZ. Is anybody from the Eximbank still here? Did you want to say something?

Mr. YONGE. We would be happy to respond, if you want us to, sir.

Senator BOSCHWITZ. Fine. Come on up. Sit there, if you wish. Would you introduce yourselves?

Mr. YONGE. Yes, sir. I am Jim Yonge, one of the Directors of the Eximbank.

Mr. HELDRIDGE. My name is Dick Heldridge. I am a director of Eximbank.

Mr. BOYD. Garrett Boyd, Special Assistant to the Vice Chairman at Eximbank.

Senator BOSCHWITZ. Did you want to answer Mr. Swenson's comment?

Mr. SWENSON. The comment I made was regarding the void between the programs as they are announced and how they are delivered. I do not mean to say that this is not a viable program, but a problem exists in this void; To restate it, when this flyer came out, entitled "Eximbank and the ETC Act of 1982," I wanted to test the water with some of the banks I deal with to see what they thought of this. My working capital is supplied from a different source, but still I deal with those exporters who are associates. The way they obtain their preexport financing is by using their house as collateral to get money from the bank.

With this large bank, when I asked them, "What do you think about this program?" his exact quote was, "If SBA can't handle such a fellow, it must be a real basket case type, so I hope one doesn't show up on my doorstep." I am sure that is not the intent of Eximbank, by any means, but I only wanted to cite the fact of what happened out there on some of these programs. This is but one example.

Senator BOSCHWITZ. Do you mind if these gentlemen comment on it at this point?

Mr. SWENSON. Fine.

Mr. BOYD. Thank you, Mr. Chairman. As far as the stipulation or the requirement that they go to the SBA first, the reasoning behind that process was that the program that is extant according to Public Law 96-481 within SBA, called the Export Revolving Line of Credit, is very similar, almost parallel, to the program that we have been directed to establish under the Export Trading Company Act of 1982.

What we were trying to do is insure that the two budgets that were established under that—ours, under the current guarantee and insurance budget, and the budget established within SBA—be used to the greatest extent possible. With SBA having the mandate to aid, counsel, and assist small person, as the point person of the Government for small business, they should go first to SBA.

We recognized, certainly, that many of the loans that might in fact be turned down by SBA would also not be acceptable to us. What we were attempting to do was establish the potential for some of those companies that might in fact have collateral that would not be acceptable to SBA but would in turn be acceptable to us and therefore give the final option as an ability for that small business to come via SBA first and then to us.

There are exceptions, of course, to that. SBA has a maximum statutory limitation of approximately $500,000. If a new company were looking for funds in excess of $500,000, they could come directly to us. It would be simply stated that SBA could not meet that because of the dollars involved in the transaction. They also have some other automatic provisions, such as if they are less than a year old, they could not come to SBA; we, then, would allow them to come directly to us under that program.

Does that respond to your question?

Senator BOSCHWITZ. Sure it is very responsive, except that putting myself into the position of Mr. Swenson's banker there, not having had the benefit of that explanation you just gave, I suppose it is not illogical to understand the answer that the banker gave: If the SBA won't take this one, we sure don't want any part of it. I understand that the SBA is supposed to be the lead agency, and you are supplementing their efforts, but that didn't quite come across in the testimony of the chairman, Mr. Draper.

Mr. BOYD. It was an effort to insure that the smaller businesses would not in fact fall through the cracks, if there was some reason that we could consider to bring them in under the program. So it was the intent, althouqh it may not have come across in the written context, to assure the greatest amount of open door for small businesses.

Senator BOSCHWITZ. How many have you taken that SBA has turned down?

Mr. BOYD. As you know, the program was approved, first of all, by the Board of Directors on January 25, so it is an introductory process that we have been going through during the last 60 days. We currently have some three applications, all of which have exceeded the dollar limitation of SBA, although some of them were small businesses which, had it not been for the dollars, would have qualified under SBA's program.

Senator BOSCHWITZ. Why don't you continue.

Mr. SWENSON. To elaborate on some ideas to fill this type of void, I would like to direct your attention to this exhibit B on page 12 of my statement. The procedure I would like to follow is to read the text and then make some comments to it.

What follows is an example of how a small business export financing program could be designed upon enactment of the suggested Eximbank charter revisions. Even though Eximbank charter revisions or amendments may not be necessary for all that follows, I by no means want to lessen the importance of the requested charter changes set forth in my statement.

The definition of "model" as used here is meant to be a discussion or working-type document to further a concept. Small businesses themselves should be given the opportunity to take the initiative and organize to better provide the mechanism required by Exim. ank which would have better access to programs. It is a preferred approach for the local private or public organization in taking such an initiative and assume some degree of the financial risk so as to earn the right to have responsibility and control of their actions. To look entirely to another Federal institution, such as Eximbank, for complete assistance on a case-by-case basis hinders the expediency and efficiency of the trading process.

A solution to allow for such needed flexibility with the appropriate Government approval is to establish controls in anticipation of needs. It is recognized that such preset export financing controls must be fiscally responsible so as to ensure the same lending soundness which Eximbank presently requires on a case-by-case basis. Preset export financing controls are items that were derived from negotiating a lending facility with three different banks, whereby an advance arrangement was made to lend 80 percent against certain types of orders, such as when you had irrevocable letters of credit. So such loaned amounts were controlled in that they could be used only to purchase products for shipment, not to go into working capital, and Eximbank has similar terms.

They have what is called "advance commitment." In essence, we at Eximbank commit to lending you, a bank, 85 percent of that contract price at *x* percent when you get that order or, in their terms, a foreign debt obligation. The point here is that more precise advance commitments into the field are put into place, the more a small business program such as defined by Eximbank would be enhanced.

A further requirement suggested is that the formation of some type of business entity be required by Eximbank with an appropriate equity investment from the private sector or local government. These requirements should be stringent enough to ensure responsible action by its small business participants for the available incentives, that is an access to Eximbank programs in a manner which each alone would not have. This access would be one of the value-added items justifying the existence of such an entity. To expect Eximbank to shoulder the complete responsibility for administering such programs with U.S. financial institutions seems too great a task for any dynamic program.

As to who would participate, I believe there are clients of export trading companies, any exporter, any small manufacturer would be interested in participating. To show you the range of people that could get involved, I would like to digress for a moment and give you an example of one of our recent business transactions that brings out some of the competition aspects of doing our business, as well as the people who are involved.

Last December, MITCO participated in a Korean bidding process for two weeks for a water treatment plant. We drew upon a U.S. consortium, comprised of local engineering, construction, architectural, and consulting firms, both small to medium size, able to market stronger internationally through such cooperation. Since Korea is planning for 66 new plants by 1990, this initial order for two plants represented a good long-term market opportunity to them. MITCO, as a trading company, arranged for and coordinated a $15 million bid by U.S. consortium contractors with a Korean partner. The source of equipment, labor, supervision, training and design was done multinationally so as to ensure competitiveness based upon the cost for the two plants. The apparent financing requirement was not a problem as the Asian Development Bank satisfied any such need for the Korean Government. The nonapparent financing advantage went to Japan. This country and its associated business together viewed the long-term opportunity of 66 plants. They jointly decided to buy their way into this opportunity by bid-

ding about one-half what the other firms bid, which were from Korea, Germany, and the United States. Hence, the nonapparent financing advantage went to Japan by their taking a look at all the plants, with their associated risk and return, over the length of that project, the next decade.

Therefore, once awarded the initial bid for these plants, the Japanese firm with its government help will enhance their position by all means possible to be better positioned for winning the following bid. Now, I am not proposing that the U.S. Government and a particular firm work so closely together on such long-term opportunities for a variety of reasons, but what is important is to recognize the competition that exists and those who are involved to have at it.

So, therefore, all those involved with this process here in the United States would certainly be interested in participating in such a program, where they could more quickly get to some of the Eximbank programs.

Senator BOSCHWITZ. The bid was $15 million?

Mr. SWENSON. Our bid was $15 million, and Japan came in a little under $7 million.

Senator BOSCHWITZ. And as a result, they got it?

Mr. SWENSON. We had mainly the supervision and some specialized equipment coming from the United States. More common commodity-type products that would go into that we had coming from basically the same source, other countries. We were cost competitive, but we were not looking at the total opportunity of 66 plants. We were bidding against the two plants.

Senator BOSCHWITZ. I am not quite sure of the change you are seeking in the Eximbank charter.

Mr. SWENSON. The point I wanted to give by that example was that the competition we encountered does face these mixed subsidies, and we have to work around or work through those. Now in this case, we are not going back to Korea to bid any more water treatment plants, but we had assembled a large group of people, small to larger size firms from our area, who were willing to participate and go after this project that we had coordinated. This same group of people, I believe, would be some of the ideal candidates who would be willing to participate in some type of a program to better operate within Eximbank, and by that I mean being able to have some of the review processes that Eximbank presently has to do here in Washington take place within a local area, provided there are the appropriate controls for that to happen. That is part of my idea to fill this void that I mentioned with that first example.

Senator BOSCHWITZ. In that first example, did the Japanese Government offer the other $8 million?

Mr. SWENSON. Evidently. To the best of our knowledge they did, yes. The fellow who worked on that project within our group is Mr. L. Crain, and we can provide you with all the details on that particular project, should you be interested.

Senator BOSCHWITZ. What is the change that you are suggesting in the Eximbank charters?

Mr. SWENSON. From that example, we had people participating who would be willing to form such an entity, which I will explain

here in a moment back with exhibit B, to better clarify some of these programs when they come out. Eximbank has a most difficult time even working with other agencies with their limited staff and properly using their resources to explain what things like this mean. Maybe the fellow who goes in for this program should not be exporting anyway. It is a very expensive proposition, as everyone knows, and the answer for that particular small business may not be to go into the export market. I think you could better find that out locally, by greater involvement in some of the programs to appropriately match him with his local bank by allowing Eximbank to change some of their policies to push more parts of the programs as they see fit, especially in those small business areas, into the local environment with associated controls.

May I continue?

Senator BOSCHWITZ. Sure. It is not clear to me how the Eximbank could have——

Mr. SWENSON. In that situation, with their present policy, as the tradeoff that exists between interest rates that they must charge versus being competitive, this would be a very difficult situation for us to be competitive unless they had drastically reduced their rates and their programs which at the moment is very difficult for them to do. I am not asking for that change. I am asking that acknowledgment be recognized of what a trading company is involved with.

Senator BOSCHWITZ. My suggestion would be to go into the next water project. Unless the Japanese are going to give away the money, they will have to charge a little more on the next project to make it back.

Mr. SWENSON. We are not going into that sort of thing.

Senator BOSCHWITZ. You are not going to participate?

Mr. SWENSON. Not in any further ones there, no.

The preset export financing controls I am about to state are not the only possibility. Hopefully, these ideas may trigger better alternatives by those associated with a particular Eximbank program. Such programs as the FCIA insurance, commercial bank guarantee program, the Cooperative Financing Facility, the bank-to-bank guaranteed lines of credit, and the discount loan program all have excellent potential for such ideas relative to small business.

Some examples of preset financial controls coupled with Government changes to fill this void are as follows:

First, a preapproved country list, non-U.S.A. banking list, and perhaps a foreign customer list which are acceptable to Eximbank and acknowledged by the participating U.S. banks in the proposed program.

Second, an Eximbank guaranty or coguaranty loan line rather than a case-by-case review for these preapproved countries and institutions to encourage bank lending. Smaller U.S. banks without international departments could then lend dollars as easily as large regional and money-center banks by then having a simple transaction to consider, thus being able to service their local accounts. Also, several States, including Minnesota, have proposed loan guarantee programs for export financing which would be complementary.

Thus, in our State, someone in Duluth who deals with his local banker and gets into a transaction regarding some export financ-

ing, would be able to go to that particular bank to participate in an Eximbank program, well aware of the program and perhaps somewhere further along the approval cycle by participating in such an organization.

Third, preestablished guidelines ranging from dollars loaned per type of transaction to credit worthiness of the buyer. These would be established by the participating guarantors, such as Eximbank.

Fourth, an Eximbank-suggested charter for the organization's principles to insure proper loan review. Medium term competitive export financing of 181 days to 5 years to years has the highest priority of need and demand for manufactured products.

Fifth, a Government-granted facility to assist in capitalization for the organization, such as the proposed tax-exempt international trade bonds for debt funding—in other words, anything that would help complement the capitalization process would be good.

Sixth, whatever elements for action could be assembled from various programs and approved as previously stated comments for export financing. Implementation would then require the private or State organization to take the next step by creating the mandatory entity, for example a financing cooperative with equity capital.

Seventh, functionally position the established entity between the exporter, trader, manufacturer, and the financial institution so as to maintain its focus on the merits of each financing transaction as well as the outstanding loan portfolio. Such an entity should then develop into the type of organization most fitting for its regional industries' needs.

In conclusion, the size and kind of the approved "elements for action" would be important parameters to structure the local organization that would manage the entity. To succeed, such an entity would have to provide a value added to be attractive to its membership. Allowing a credit-worthy institution to act responsible and avoid having to come to Eximbank for each small loan guarantee would certainly enhance the ability of the smaller U.S. firm to export its products to the rest of the world. I believe that such elements are available and/or proposed at the Federal level, but access by smaller firms requires the appropriate control and responsibility of private or public organizations to exist on a State or regional basis.

One other point I would just like to add is this. Later this morning I see on the agenda here where Dr. Muller is going to give some testimony. I noticed in one of the recent research reports that he had put out, in that document a $1 billion loan portfolio requires 1 or 2 percent administration fee. Some of these approvals are overlapped, at the Federal level and at the local level. So that comes to $10 to $20 million that might be utilized more efficiently if the local programs could be so tied into programs such as the Eximbank program.

Thank you, Mr. Chairman, for hearing my statement. Are there any questions?

Senator BOSCHWITZ. No.

[The prepared statement of Mr. Swenson follows:]

STATEMENT OF

DOUGLAS E. SWENSON

VICE PRESIDENT AND TREASURER

MITCO INTERNATIONAL, INC.

BEFORE THE
SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT
COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

APRIL 7, 1983

BACKGROUND ON MITCO

MR. CHAIRMAN, I AM DOUGLAS E. SWENSON, VICE PRESIDENT AND TREASURER OF MITCO - A MULTINATIONAL TRADING COMPANY HEADQUARTERED IN MINNEAPOLIS, MINNESOTA.

OUR SMALL BUSINESS IS UNIQUE AMONG U.S. EXPORT MANAGEMENT COMPANIES AND TRADING COMPANIES IN TWO BASIC ASPECTS. ONE ASPECT IS THE METHOD BY WHICH THE COMPANY CAME INTO EXISTENCE. THE OTHER IS IN ITS DESIGN.

THE COMPANY WAS BUT A CONCEPT IN 1981. THIS CONCEPT WAS DEVELOPED AND ENDORSED BY THE MINNESOTA BUSINESS PARTNERSHIP (AN ORGANIZATION COMPRISED OF CHIEF EXECUTIVES OF LEADING MINNESOTA BUSINESSES) AND THE MINNESOTA ASSOCIATION OF COMMERCE AND INDUSTRY (AN ORGANIZATION WITH OVER 3,000 MEMBER BUSINESSES). ONE COMMON OBJECTIVE OF BOTH ORGANIZATIONS IS TO IMPROVE THE LOCAL BUSINESS CLIMATE FOR SMALL BUSINESSES. RECOGNITION OF THIS OBJECTIVE NOT ONLY BY THE MEMBERSHIPS BUT ALSO BY LOCAL, STATE, AND FEDERAL AGENCIES LED TO THE SUPPORT OF THE IDEA OF FORMING A COMPANY TO SPECIFICALLY ASSIST SMALLER LOCAL FIRMS IN EXPORTING. INITIAL EQUITY INVESTMENTS WITH THIS OBJECTIVE IN MIND WERE MADE BY SEVERAL LARGE LOCAL COMPANIES NOT NEEDING SUCH EXPORT ASSISTANCE. A LISTING OF THESE FIRMS IS SHOWN IN EXHIBIT A. IN ADDITION TO FINANCIAL ASSISTANCE, SEVERAL OF THESE FIRMS DONATED OTHER RESOURCES, FOR EXAMPLE, PERSONNEL SUCH AS ME. I AM A CONTROL DATA CORPORATION EMPLOYEE ON LOAN TO MITCO TO ASSIST IN ITS DEVELOPMENT. IT IS IN MY CAPACITY AS AN OFFICER OF MITCO THAT I AM SPEAKING TO YOU TODAY. HENCE THIS DESIRABLE COOPERATION OF BUSINESS HELPING BUSINESS IS A REALITY IN THE MINNESOTA-BASED EXPORT TRADING COMPANY.

A SECOND ASPECT OF MITCO - ITS DESIGN IS SOMEWHAT UNIQUE AMONG U.S. FIRMS IN THAT THE FRAMEWORK FOR OUR ORGANIZATION REFLECTS MANY OF THE DESIRABLE CHARACTERISTICS OF SUCCESSFUL LARGE MULTINATIONAL TRADING COMPANIES OF EUROPE AND JAPAN. THIS WAS DONE WITH FULL RECOGNITION THAT SUCH A FOREIGN TRADING COMPANY DESIGN CANNOT BE MIRRORED IN THIS COUNTRY, BUT CERTAINLY MUST HAVE SOME VALUABLE CHARACTERISTICS TO BUILD INTO OUR DESIGN AS THEY ARE PROVEN THROUGH BUSINESS PERFORMANCE. THIS DESIGN PROCESS IS SIMPLY AMERICAN INGENUITY APPLIED TO THE CURRENT TRADE PROBLEMS OF THIS COUNTRY. THUS, WHAT WE HAVE TODAY IS A SMALL BUSINESS TRADING COMPANY IN MINNESOTA IN A DEVELOPMENT PHASE WORKING TOWARD BECOMING A MAJOR TRADING COMPANY IN THE WORLD MARKETPLACE.

THIS GENERAL TRADING COMPANY SPECIALIZING IN THE MORE SOPHISTICATED HIGH TECHNOLOGY INDUSTRIAL PRODUCTS HAS ALREADY EXPERIENCED A WIDE VARIETY OF EXPORT CHALLENGES. I WANT TO LEAVE WITH YOU TODAY SOME RECOMMENDATIONS AS TO HOW THE EXISTING FEDERAL STRUCTURE, WITHOUT SIGNIFICANT CHANGE IN FUNDING, COULD BETTER SERVE THE NEEDS OF THE U.S. SMALL BUSINESS TRADING COMMUNITY IN THE NEXT FIVE YEARS.

EXPORT FINANCING PROBLEMS OF SMALL BUSINESS

I HAVE GIVEN THIS BACKGROUND ON MITCO TO YOU TODAY FOR THE PURPOSE OF HAVING A COMMON PERSPECTIVE AS WE LOOK AT ONE INGREDIENT OF INTERNATIONAL TRADE - EXPORT FINANCING.

A TRADING COMPANY SUCH AS MITCO IS MARKET-DRIVEN. FOREIGN MARKET OPPORTUNITIES EXIST TO BUY AMERICAN PRODUCTS. WE HAVE AMERICAN PRODUCTS TO EXPORT. EXPORT FINANCING IS THE MISSING INGREDIENT TO FACILITATE SUCCESSFUL TRADING TRANSACTIONS.

ONE PARTICULAR PROBLEM HAS BEEN THE AVAILABILITY OF EXPORT FINANCING FOR THE SMALL BUSINESS. JUST BECAUSE A BUSINESS IS SMALL, IT DOES NOT FOLLOW THAT IT MUST AUTOMATICALLY BE GEARED TO SMALLER EXPORT FINANCING PROGRAMS THAN THE LARGER FIRMS. TRUE, EACH INDIVIDUAL FIRM MAY REQUIRE FEWER EXPORT FINANCING DOLLARS THAN A LARGER FIRM. HOWEVER, THE SERVICES A SMALLER FIRM WILL REQUIRE IN ITS BUSINESS INTERACTIONS MUST BE, IF ANYTHING, STRONGER AND MORE EFFICIENT TO BE EFFECTIVE. WHY? THE SMALLER FIRM NOT ONLY LACKS THE RECOGNITION OF A "BRAND-NAME" FIRM, BUT ODDS ARE THAT THE SMALLER FIRM'S SERVICE SUPPORT COMPANIES MAY HAVE FEWER IF ANY INTERNATIONAL BUSINESS SKILLS. THE SMALLER FIRM MAY EVEN REQUIRE A MORE FAVORABLE

INTEREST LOAN RATE TO COMPETE, ESPECIALLY IF IT IS IN A DISTRESSED INDUSTRY. THE SMALLER FIRM IS LESS LIKELY TO HAVE INTERNATIONAL BANKING SERVICES AVAILABLE THROUGH ITS OWN BANK. IF EXPORT FINANCING IS NEEDED, A REFERRAL WOULD BE THE START OF A LONG AND TIME CONSUMING SERIES OF CONTACTS WITH A NUMBER OF OTHER ORGANIZATIONS TO ARRANGE THE NECESSARY EXPORT FINANCING. EVEN THE EXIMBANK REVIEWS OF FINANCING REQUESTS OF SMALL FIRMS MAY REQUIRE TREASURY AND COMMERCE ACTION WHICH ADD TO THE TIME DELAYS OFTEN TO ONLY FIND OUT THAT EXPORT FINANCING AS DESIRED IS NOT AVAILABLE FOR THEIR NEEDS.

THE SECOND MAJOR PROBLEM FOR SMALLER FIRMS IN OBTAINING EXPORT FINANCING IS THE LACK OF EFFICIENT PROCESSING OF THE AFOREMENTIONED PAPERWORK REQUIREMENTS. WHAT THE SMALLER BUSINESS OR TRADING COMPANY NEEDS IS THE CAPABILITY FOR QUICK RESOLUTION ON POSSIBLE EXPORT FINANCING PROBLEMS WHILE NEGOTIATING BUSINESS IN ANOTHER COUNTRY. THE NEED DESCRIBED HERE IS SHORT- TO MEDIUM-TERM FINANCING FOR THE BUYER, NOT ADDITIONS TO THE SMALL BUSINESS' WORKING CAPITAL FOR OTHER PURPOSES.

THE THIRD MAJOR PROBLEM FOR THE SMALLER FIRM IS THE COMPETITIVENESS OF EXPORT FINANCING. THIS WORLDWIDE FINANCING COMPETITION IS SO INTENSE, THAT IN SOME SITUATIONS IT IS UNLIKELY THAT ANY U.S. ASSISTANCE PROGRAM COULD BE COMPETITIVE. THE REASON BEING THAT U.S. GOVERNMENT AND U.S. BUSINESSES DO NOT HAVE AS CLOSE A WORKING RELATIONSHIP AS IS FOUND WITHIN SOME OTHER COUNTRIES IN BOTH MARKET SELECTION AND PROVISION OF MIXED SUBSIDIES. I AM NOT PROPOSING THAT THE U.S. GOVERNMENT AND BUSINESSES BECOME AS INTERTWINED AS IN SOME COUNTRIES, BUT DO WANT TO POINT OUT THE EXISTENCE OF SUCH COMPETITION FROM OTHER COUNTRIES.

THE SOLUTIONS FOR THESE PROBLEMS BRING TO LIGHT AN IMPORTANT REQUIREMENT FOR THE EXPORT FINANCING NEEDS OF THE SMALL BUSINESS. THE POINT BEING THAT AN EFFICIENT SYSTEM DOES NOT EXIST TO EXPEDITIOUSLY COVER FINANCING TERMS ON-SITE IN A FOREIGN COUNTRY WHICH WOULD ALLOW SMALLER FIRMS TO BE COMPETITIVE WITH OTHER BIDDERS.

BACKGROUND ON EXIMBANK

IN LOOKING AT THE EXPORT-IMPORT BANK RECORD SINCE 1934, IT APPEARS THAT ITS EXISTENCE IS MAINLY DUE TO THE RECOGNITION OF EXPORT FINANCING AS A MAJOR FACTOR IN EXPORT SALES. THE SIX REVISIONS SINCE 1934 HAVE NOT CONTAINED ANY MAJOR PROGRAMS FOR SMALL BUSINESS. THESE REVISIONS SHOW THE EVOLUTION OF EXIMBANK'S ROLE IN EXPORT SALES:

1. WHEN FIRST CHARTERED IN 1934 BY EXECUTIVE ORDER, THE BANK'S OBJECTIVE WAS TO PROMOTE TRADE JUST BETWEEN THE U.S. AND THE SOVIET UNION.

2. DURING THE WORLDWIDE DEPRESSION BEFORE WORLD WAR II, ITS OBJECTIVE WAS EXPANDED TO INCLUDE ASSISTING IN DOMESTIC U.S. RECOVERY AND PROVIDING CREDITS WHICH WERE UNOBTAINABLE FROM PRIVATE SOURCES.

3. DURING WORLD WAR II THE BANK PROVIDED EXPORT CREDITS TO U.S. ALLIES.

4. AFTER WORLD WAR II THE BANK SERVED AS A LENDER FOR THE RECONSTRUCTION OF WESTERN EUROPE.

5. During the 1950's The Bank's main objective shifted to Latin America serving to finance the development of the less-developed nations in the Western Hemisphere.

6. The last change of objective came in the 1960's when emphasis shifted away from development projects toward the explicit promotion of U.S. exports. This last change was made to try to correct the gradual deterioration in the U.S. trade position. This policy continues to this day.

Today it has become an economic necessity to promote small business exports. Many legislative proposals have been made and a few new laws have been passed to support such activities. One example is the Export Trading Company (ETC) Act passed last year.

The main objective of the ETC act was to further development of trading companies which are in essence marketing companies. An implied assumption is that by allowing certain types of banks to hold equity positions in trading companies, their lending abilities as well as information networks would prove to be beneficial in some degree. To date, banks have not reacted enthusiastically to the opportunity to invest in trading companies. It is important to remember that a trading company is first and foremost a marketing company, not a finance company. Financing requirements must ultimately be satisfied from a different source.

As part of the ETC act, specific direction has been given to the Eximbank to assist small and medium sized exporters through the provision of easier export financing. Eximbank has identified its targets as "financial institutions or other public or private creditors." Therefore, this is now the time

TO SO AMEND THE EXIMBANK CHARTER WITH THE INCLUSION OF APPROPRIATE LANGUAGE SPECIFIC TO THE NEEDS OF SMALL BUSINESS. IT HAS LONG BEEN RECOGNIZED THAT EXIMBANK MAINLY SERVICES THE LARGE COMPANIES. PROPER REVISION OF THE BANK'S CHARTER WILL ENSURE THAT EXIMBANK'S COMMITMENT TO ASSIST SMALL BUSINESS IS FULFILLED.

RECOMMENDATION FOR EXIMBANK CHARTER REVISIONS FOR SMALL BUSINESS

LET ME FIRST NOTE THAT THERE IS ALREADY A MAJOR LEGISLATIVE INJUNCTION IN THE EXPORT-BANK ACT OF 1945, AS AMENDED, TO ENCOURAGE THE BANK TO HELP SMALL BUSINESS. SPECIFICALLY, IN SEC. 2(B)(1)(B), EXIMBANK IS REQUIRED TO "GIVE DUE RECOGNITION TO THE POLICY STATED IN SECTION 2(A) OF THE SMALL BUSINESS ACT THAT 'THE GOVERNMENT SHOULD AID, COUNSEL, ASSIST, AND PROTECT, INSOFAR AS IS POSSIBLE, THE INTERESTS OF SMALL BUSINESS CONCERNS IN ORDER TO PRESERVE FREE COMPETITIVE ENTERPRISE' AND THAT IN FURTHERANCE OF THIS POLICY THE BOARD OF DIRECTORS SHALL DESIGNATE AN OFFICER OF THE BANK WHO SHALL BE RESPONSIBLE TO THE PRESIDENT FOR ALL MATTERS CONCERNING OR AFFECTING SMALL BUSINESS CONCERNS AND WHO, AMONG OTHER DUTIES, SHALL BE RESPONSIBLE FOR ADVISING SMALL BUSINESSMEN OF THE OPPORTUNITIES FOR SMALL BUSINESS CONCERNS IN THE FUNCTIONS OF THE BANK AND FOR MAINTAINING LIAISON WITH THE SMALL BUSINESS ADMINISTRATION AND OTHER DEPARTMENTS AND AGENCIES IN MATTERS AFFECTING SMALL BUSINESS CONCERNS; THAT THE BANK SHOULD GIVE EMPHASIS TO ASSISTING NEW AND SMALL BUSINESS ENTRANTS IN THE AGRICULTURAL EXPORT MARKET, AND SHALL, IN COOPERATION WITH OTHER RELEVANT GOVERNMENT AGENCIES, INCLUDING THE COMMODITY CREDIT CORPORATION, DEVELOP A PROGRAM OF EDUCATION TO INCREASE AWARENESS OF EXPORT OPPORTUNITIES AMONG SMALL AGRIBUSINESSES AND COOPERATIVES."

DESPITE THE FOREGOING REQUIREMENT, IT DOES NOT APPEAR THAT EXIMBANK HAS DONE ALL THAT IT COULD TO ASSIST SMALL BUSINESS EXPORTS, AND INDEED, MUCH MORE COULD BE DONE BY THE ORGANIZATION UNDER ITS CURRENT ACT TO HELP SMALL AND NEW-TO-MARKET OR NEW-TO-EXPORT FIRMS. IN ORDER TO GIVE ADDITIONAL STIMULUS TO EXIMBANK IN THIS AREA, AMENDMENTS TO THE EXIMBANK LEGISLATION SHOULD BE ACCOMPANIED BY ASSOCIATED EXTERNAL AND INTERNAL ACTIONS WHICH WILL ADDRESS THE FOLLOWING:

- o FUNDING FOR SMALL BUSINESS EXPORT PROGRAMS;
- o AVAILABILITY OF THESE PROGRAMS IN THE FIELD;
- o TERMS OF FINANCING OFFERED;
- o INTERNAL ORGANIZATION FOR DELIVERY OF THE FINANCING; AND
- o BOARD AND STAFF DETERMINATION TO PROCEED WITH SMALL BUSINESS EXPORT PROGRAMS.

ONE EXAMPLE OF SUCH ACTIONS FOR AN INNOVATIVE FINANCING PROGRAM MODEL FOR SMALL BUSINESS IS SHOWN IN EXHIBIT B.

MR. CHAIRMAN, I SUBMIT TO THIS COMMITTEE THE FOLLOWING FIVE CHANGES IN LANGUAGE FOR THE REVISED CHARTER.

1. WITH REGARD TO THE FIRST POINT, PROVISION COULD BE MADE IN EXIMBANK'S LEGISLATION IN SEC. 2 (B) (1) (B), AS FOLLOWS:

"In furtherance of its policy of actively assisting in the development of small business exports, 10% of Eximbank's guarantees, insurance and extensions of credit shall be to small business concerns."

2. In order to encourage the improvement of Eximbank's ability to make export finance programs available to small exporters in the field, the Act might be amended in SEC. 2(a) (1) by adding a new third sentence, which states:

"The Bank shall encourage and support the development of new export finance institutions and programs to assist in the expansion of exports and to deliver adequate export financing to all states and regions of the United States."

3. With regard to Eximbank's internal organization for delivering financing to small business exporters, the Act could be stengthened by requiring that a full division of Eximbank be dedicated to supporting small business exports rather than having just one officer assume this function. This could take the form of an amendment to SEC. 2(b) (1) (B) to delete the words:

". . .shall designate an officer of the Bank who shall be responsible to the President of the Bank for all matters concerning or affecting small business. . ."

In substitution for the above, the following should be stated:

> ". . .SHALL ESTABLISH AND MAINTAIN A FULLY-STAFFED SMALL BUSINESS DIVISION WHICH SHALL BE RESPONSIBLE TO THE PRESIDENT OF THE BANK FOR ALL MATTERS CONCERNING OR AFFECTING SMALL BUSINESS. . ."

4. WITH REGARD TO STRENGTHENING THE DETERMINATION OF EXIMBANK TO ACTIVELY ASSIST SMALL BUSINESS EXPORT DEVELOPMENT, THE ACT COULD BE AMENDED IN SEC. 2(B)(1)(B) BY ELIMINATING THE WORDS "DUE RECOGNITION" AND SUBSTITUTING THE WORDS "HIGH PRIORITY" SO THAT THIS PHRASE READS AS FOLLOWS:

> ". . .THE BANK SHALL GIVE HIGH PRIORITY TO THE POLICY STATED IN SECTION 2(A) OF THE SMALL BUSINESS ACT THAT 'THE GOVERNMENT SHOULD AID, COUNSEL, ASSIST, AND PROTECT, INSOFAR AS IS POSSIBLE, THE INTERESTS OF SMALL BUSINESS CONCERNS. . .'"

5. FINALLY, IF AN EXIMBANK ADVISORY COMMITTEE IS REINSTITUTED, AS WAS PREVIOUSLY PROVIDED BY THE EXPORT IMPORT BANK ACT WHICH WAS TERMINATED ON FEBRUARY 25, 1979, IT IS RECOMMENDED THAT ONE ADVISOR REPRESENT "STATE GOVERNMENT" AND ONE ADVISOR REPRESENT "SMALL BUSINESS."

IN CONCLUSION, THIS COMMITTEE HAS THE OPPORTUNITY TO ASSIST THE SMALL BUSINESS COMMUNITY AND THIS NATION BY GIVING CONSIDERATION TO THESE RECOMMENDED CHANGES IN THE EXIMBANK CHARTER TO INCREASE EXPORTS.

THANK YOU MR. CHAIRMAN AND COMMITTEE MEMBERS FOR HEARING MY STATEMENT. ARE THERE ANY QUESTIONS?

EXHIBIT A

INITIAL EQUITY INVESTORS

JOSTENS, INCORPORATED
5501 Norman Center Drive
Minneapolis, MN 55437

MCQUAY-PERFEX
P.O. Box 9316
Minneapolis, MN 55440

MEDTRONIC, INCORPORATED
P.O. Box 1453
Minneapolis, MN 55440

VALSPAR CORPORATION
P.O. Box 1461
Minneapolis, MN 55440

MINNESOTA GAS COMPANY
201 South 7th Street
Minneapolis, MN 55402

TRANS-TECH CORPORATION
9855 Hamilton Road
Eden Prairie, MN 55344

NORTHWEST BANCORPORATION
1200 Northwestern Bank Building
Minneapolis, MN 55480

CONTROL DATA CORPORATION
8100 34th Avenue South
Minneapolis, MN 55420

DATA CARD CORPORATION
P.O. Box 9355
Minneapolis, MN 55440

EXPERIENCE, INCORPORATED
1930 Dain Tower
Minneapolis, MN 55402

FIRST BANK SYSTEM, INCORPORATED
1200 First Bank Place East
Minneapolis, MN 55480

H. B. FULLER COMPANY
2400 Kasota Avenue
St. Paul, MN 55108

NORTHERN STATES POWER COMPANY
100 Washington Square
Minneapolis, MN 55401

EXHIBIT B

WHAT FOLLOWS IS AN EXAMPLE OF HOW A SMALL BUSINESS EXPORT FINANCING PROGRAM COULD BE DESIGNED UPON ENACTMENT OF THE SUGGESTED EXIMBANK CHARTER REVISIONS.

SMALL BUSINESS PROGRAM DESIGN MODEL

SMALL BUSINESSES THEMSELVES SHOULD BE GIVEN THE OPPORTUNITY TO TAKE THE INITIATIVE AND ORGANIZE TO PROVIDE THE MECHANISM (REQUIRED BY EXIMBANK) WHICH WOULD HAVE BETTER ACCESS TO PROGRAMS. IT IS A PREFERRED APPROACH FOR THE LOCAL PRIVATE OR PUBLIC ORGANIZATION IN TAKING SUCH AN INITIATIVE AND ASSUME SOME DEGREE OF THE FINANCIAL RISK SO AS TO EARN THE RIGHT TO HAVE RESPONSIBILITY AND CONTROL OF THEIR ACTIONS. TO LOOK ENTIRELY TO ANOTHER FEDERAL INSTITUTION, I.E., EXIMBANK, FOR COMPLETE ASSISTANCE ON A CASE-BY-CASE BASIS HINDERS THE EXPEDIENCY AND EFFICIENCY OF THE TRADING PROCESS.

A SOLUTION TO ALLOW FOR SUCH NEEDED FLEXIBILITY WITH THE APPROPRIATE GOVERNMENT APPROVAL IS TO ESTABLISH FINANCIAL CONTROLS IN ANTICIPATION OF NEED. IT IS RECOGNIZED THAT SUCH PRESET EXPORT FINANCING CONTROLS MUST BE FISCALLY RESPONSIBLE SO AS TO ENSURE THE SAME LENDING SOUNDNESS WHICH EXIMBANK PRESENTLY REQUIRES ON A CASE-BY-CASE BASIS.

A FURTHER REQUIREMENT SUGGESTED IS THAT THE FORMATION OF SOME TYPE OF BUSINESS ENTITY BE REQUIRED BY EXIMBANK WITH AN APPROPRIATE EQUITY INVESTMENT FROM THE PRIVATE SECTOR OR LOCAL GOVERNMENT. THESE REQUIREMENTS SHOULD BE STRINGENT ENOUGH TO

ENSURE RESPONSIBLE ACTION BY ITS SMALL BUSINESS PARTICIPANTS FOR THE AVAILABLE INCENTIVES, I.E., AN ACCESS TO EXIMBANK PROGRAMS IN A MANNER WHICH EACH ALONE WOULD NOT HAVE. THIS ACCESS WOULD BE ONE OF THE VALUE ADDED ITEMS JUSTIFYING THE EXISTENCE OF SUCH AN ENTITY. TO EXPECT EXIMBANK TO SHOULDER THE COMPLETE RESPONSIBILITY FOR ADMINISTERING SUCH PROGRAMS WITH U.S. FINANCIAL INSTITUTIONS SEEMS TO GREAT A TASK FOR ANY DYNAMIC PROGRAM.

THE PRESET EXPORT FINANCING CONTROLS I AM ABOUT TO STATE ARE NOT THE ONLY POSSIBILITIES. HOPEFULLY, THESE IDEAS MAY TRIGGER BETTER ALTERNATIVES BY THOSE ASSOCIATED WITH A PARTICULAR EXIMBANK PROGRAM. SUCH PROGRAMS AS THE FCIA INSURANCE, COMMERCIAL BANK GUARANTEE PROGRAM, THE COOPERATIVE FINANCING FACILITY, THE BANK-TO-BANK GUARANTEED LINES OF CREDIT, AND THE DISCOUNT LOAN PROGRAM, ALL HAVE EXCELLENT POTENTIAL FOR SUCH IDEAS RELATIVE TO SMALL BUSINESS.

PRESET EXPORT FINANCING CONTROLS

SOME EXAMPLES OF PRESET FINANCIAL CONTROLS COUPLED WITH GOVERNMENT CHANGES TO FILL THIS VOID ARE AS FOLLOWS:

1. A PRE-APPROVED COUNTRY LIST, NON-U.S.A. BANKING LIST, AND PERHAPS A FOREIGN CUSTOMER LIST WHICH ARE ACCEPTABLE TO EXIMBANK AND ACKNOWLEDGED BY THE PARTICIPATING U.S. BANKS IN THE PROPOSED PROGRAM.

2. AN EXIMBANK GUARANTY OR CO-GUARANTY LOAN LINE RATHER THAN A CASE-BY-CASE REVIEW FOR THESE PRE-APPROVED COUNTRIES AND INSTITUTIONS TO ENCOURAGE BANK LENDING. (SMALLER U.S. BANKS WITHOUT INTERNATIONAL DEPARTMENTS COULD THEN LEND DOLLARS AS EASILY AS LARGE REGIONAL AND MONEY CENTER BANKS BY THEN HAVING A SIMPLE TRANSACTION TO CONSIDER, THUS BEING ABLE TO SERVICE TO THEIR LOCAL ACCOUNTS. ALSO, SEVERAL STATES INCLUDING MINNESOTA HAVE PROPOSED LOAN GUARANTEE PROGRAMS FOR EXPORT FINANCING WHICH WOULD BE COMPLEMENTARY.)

3. PRE-ESTABLISHED GUIDELINES RANGING FROM DOLLARS LOANED PER TYPE OF TRANSACTION TO CREDIT WORTHINESS OF THE BUYER. THESE WOULD BE ESTABLISHED BY THE PARTICIPATING GUARANTORS, I.E., EXIMBANK.

4. AN EXIMBANK-SUGGESTED CHARTER FOR THE ORGANIZATION'S PRINCIPLES TO ENSURE PROPER LOAN REVIEW. MEDIUM TERM COMPETITIVE EXPORT FINANCING (181 DAYS TO 5 YEARS) HAS THE HIGHEST PRIORITY OF NEED AND DEMAND FOR MANUFACTURED PRODUCTS.

5. A GOVERNMENT-GRANTED FACILITY TO ASSIST IN CAPITALIZATION FOR THE ORGANIZATION SUCH AS THE PROPOSED TAX EXEMPT INTERNATIONAL TRADE BONDS FOR DEBT FUNDING.

6. ELEMENTS FOR ACTION ASSEMBLED FROM VARIOUS PROGRAMS WHICH ARE APPROVED FROM THE PREVIOUSLY STATED COMMENTS FOR EXPORT FINANCING. IMPLEMENTATION WOULD THEN REQUIRE THE PRIVATE OR STATE ORGANIZATION TO TAKE THE NEXT STEP BY CREATING THE MANDATORY ENTITY, E.G., A FINANCING COOPERATIVE WITH EQUITY CAPITAL.

7. FUNCTIONALLY POSITION THE ESTABLISHED ENTITY BETWEEN THE EXPORTER, TRADER, MANUFACTURER, AND THE FINANCIAL INSTITUTION SO AS TO MAINTAIN ITS FOCUS ON THE MERITS OF EACH FINANCING TRANSACTION AS WELL AS THE OUTSTANDING LOAN PORTFOLIO. SUCH AN ENTITY SHOULD THEN DEVELOP INTO THE TYPE OF ORGANIZATION MOST FITTING FOR ITS REGIONAL INDUSTRIES' NEEDS.

IN CONCLUSION, THE SIZE AND KIND OF THE APPROVED "ELEMENTS FOR ACTION" WOULD BE IMPORTANT PARAMETERS TO STRUCTURE THE LOCAL ORGANIZATION THAT WOULD MANAGE THE ENTITY. TO SUCCEED, SUCH AN ENTITY WOULD HAVE TO PROVIDE A VALUE ADDED TO BE ATTRACTIVE TO ITS MEMBERSHIP. ALLOWING A CREDIT-WORTHY INSTITUTION TO ACT RESPONSIBLY AND AVOID HAVING TO COME TO EXIMBANK FOR EACH SMALL LOAN GUARANTEE WOULD CERTAINLY ENHANCE THE ABILITY OF THE SMALLER U.S. FIRM TO EXPORT ITS PRODUCTS TO THE REST OF THE WORLD. I BELIEVE THAT SUCH ELEMENTS ARE AVAILABLE AND/OR PROPOSED ON THE FEDERAL LEVEL, BUT ACCESS BY SMALLER FIRMS REQUIRES THAT APPROPRIATE CONTROL AND RESPONSIBILITY OF PRIVATE OR PUBLIC ORGANIZATIONS EXISTS ON A STATE OR REGIONAL BASIS.

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EXHIBIT C

REGIONAL ACTIVITIES

REFERENCE: EXHIBIT B: PRESET EXPORT FINANCING CONTROLS: ITEM 2.

EXPORT FINANCING PROBLEMS FOR SMALL BUSINESS ARE IDEALLY ADDRESSED BY COOPERATIVE EFFORTS BETWEEN GOVERNMENT AND THE PRIVATE SECTOR. FOR EXAMPLE, IN MINNESOTA THE U.S. SMALL BUSINESS ADMINISTRATION (SBA) OFFICE IS ATTEMPTING TO APPLY ITS GUARANTEE AUTHORITY AND REVOLVING LINE OF CREDIT FOR EXPORTING IN A COMBINED EFFORT INVOLVING THE FEDERAL GOVERNMENT, THE STATE OF MINNESOTA, FINANCIAL INSTITUTIONS, AND BUSINESSES. SUCH A PROGRAM WOULD PROVIDE IMPROVED ACCESS TO THE AVAILABLE FUNDS FOR EXPORT FINANCING, NOT BE GOVERNMENT CONTROLLED, UTILIZE THE EXPERTISE OF THE FINANCIAL COMMUNITY, PROVIDE RELATIVE FAST ACTION, AND BE TAILORED SPECIFICALLY FOR SMALL BUSINESS.

THE PRIVATE SECTOR, E.G., MITCO ET AL, AND THE STATE OF MINNESOTA ARE INTERESTED IN A FURTHER DEVELOPMENT OF THE PROPOSED PROGRAM. IT APPEARS THAT APPLICABLE SBA REGULATIONS MAY REQUIRE SUBSTANTIVE AND/OR INTERPRETIVE CHANGES.

Senator BOSCHWITZ. I would ask the gentlemen from the Eximbank if they have any comment on this preset export financing controls Mr. Swenson speaks about.

Mr. YONGE. Senator, this sounds as if he is talking about an entitlement program.

Senator BOSCHWITZ. I did not get the impression it would be an entitlement—well, in a sense.

Mr. YONGE. And that we have not had. We have done a case-by-case review to target our assets to the competition as necessary. We do have a number of guidelines on the supply-of-credit side that he is aware of and that have been spoken about here this morning. I am not real clear as to what he is talking about if it is not an entitlement program.

Mr. SWENSON. Mr. Chairman, I am not referring to an entitlement program. I would look to the private sector to create this entity, as requested by Eximbank, to better process and take approval action on small business loans for the local exporter, that he could then take to his local bank and better negotiate his terms or process that through. As a simple example of the case-by-case review process, if that alone could be extended out to some type of local requirement, be it that entity or whatever, which Eximbank would be comfortable with, that is my point. It is in that direction that I am coming from, not from entitlement regarding this particular concept.

Mr. HELDRIDGE. I am a former banker in Minneapolis, with the Northwest Bank Corp., and I know that they do have this plan available that he is referring to. Eximbank has what we call a delegated authority allocation to banks like the Northwestern National, and they can deal directly with his company up to an amount of $750,000 without coming to us for our approval and going through the redtape. It is already a preestablished program under what we call our bank guaranty program. So it is available.

Mr. SWENSON. Mr. Chairman, Northwest Bank is one of the investors in our company. It is along those lines that I am expressing my idea to have the small business program expand into the others which are available.

Senator BOSCHWITZ. You were associated with the Northwest Bank?

Mr. HELDRIDGE. Yes, sir. I was a vice president of the Northwest Bank Corp. back in 1957 to 1960.

Senator BOSCHWITZ. In any case, I have dealt with them for a number of years as well. You are in effect saying that what he is requesting is already in place?

Mr. HELDRIDGE. Yes, sir, it is. If I understand his suggestion properly, it is in place.

Senator BOSCHWITZ. That is what I gather, too; An Eximbank guaranty or co-guaranty loan line rather than a case-by-case review to these preapproved countries or institutions—while it is not quite in that format, it seems to exist. Do I misunderstand?

Mr. SWENSON. Mr. Chairman, that is perhaps a good example as to what I am suggesting as ideas within that exhibit, such that more of the small business programs could follow similar lines, which has the FCIA insurance, and so on.

Senator BOSCHWITZ. You are saying that it is assistance that should be tailored to small business?

Mr. Swenson. Yes.

Senator BOSCHWITZ. But what is the limit on the present program? Did you say $750,000?

Mr. HELDRIDGE. I think it is up to $750,000, yes.

Senator BOSCHWITZ. I presume that is per transaction?

Mr. HELDRIDGE. Per customer, per business, per transaction.

Senator BOSCHWITZ. So it is more or less directed at small business?

Mr. HELDRIDGE. Yes, it is.

Mr. SWENSON. Mr. Chairman, in that situation, in the banks that so choose to participate, that function is still with or behind the bank that the small business person would have to go to. In other words, there are so many programs, including those of Eximbank, that if there was a mechanism within the field for that small business person to go to that mechanism, organization, entity and participate such that he would have a greater advantage to learn of the particular program for his need and then be able to go to his local bank, especially if it's a smaller bank, well equipped with knowing what he could obtain in Eximbank guarantees, et cetera, I think that would be a more——

Senator BOSCHWITZ. That is a hard thing to take issue with, certainly, Doug. We are always looking for that superagency that knows all—one that somebody can go to and become well informed. I think the Congress and the bureaucracy get ahead of anybody's ability to know all the things that exist, but I agree that it would be nice if we could somehow fashion something that would do that.

Are most banks aware of the program that you indicated to me?

Mr. HELDRIDGE. Yes, sir. I think there are over 300 of the banks that have participated in what we call our delegated authority program.

Senator BOSCHWITZ. That is a very small number of banks.

Mr. HELDRIDGE. Yes, it is. There are 15,000 banks in the country, and only about 300 to 400 participate in the program.

Senator BOSCHWITZ. Do you mean 15,000 different banking organizations? That sounds like it is even a little low. There must be more than that. It would be helpful if the word could be gotten out. That is what I said to the chairman when he testified. He almost sounded like he was going in every morning and bending every effort to get the word out to small business and hardly doing anything else, yet the results do not seem to underscore the success of those efforts.

Mr. YONGE. Senator, I think that is the central issue, getting the word out. Since I have been at the Bank, it is just apparent every day that a lot of people just do not know we are there. It is not just us, it is the whole concept of helping the small businessman—again I come from that same arena—to understand that there is help in not only the financing aspect of exporting but the whole sphere of exporting problems that, in particular, the Department of Commerce deals with. That, to me, is the whole crux of the issue: getting the word out to the potential exporters, the small- and medium-sized businessman that an agency such as the Eximbank

does exist and is available to use its resources to help them make exports and assume risk where they cannot.

Senator BOSCHWITZ. When I was in business, all these interactions between agencies that I now understand the initials of, whether it be the Department of Commerce, the SBA, or the other organizations never had any contact with me. Do you deal with the various small business associations? How do you go about trying to make these things known, other than as the chairman said, trying to interact with the various agencies and put out reports. Let me tell you, this material that comes out is hard reading. I would not have read this if I were a businessman. Maybe Doug would because he is more involved in exporting than I was. But do you deal with the local small business organizations? Is there any small business organization that deals with businesses that want to export?

Mr. SWENSON. We do have in Minnesota an export managers' association that deals with that issue. They are exporters. They are not strongly organized at this point of time. They would be calling upon a smaller firm in an out-metro area.

The point that was made earlier on the banks who are not involved in the program is a good one, and that is the exact group that could then match somehow if they were involved in such a preset program. Then the fellow outside the big-city area where the regional banks are, with their international departments, could go to his own local bank who would be well in tune with the program. That is one organization that should be added to the Eximbank's list.

Senator BOSCHWITZ. Are there many such export managers' associations?

Mr. SWENSON. Export managers' association. I would provide you with the exact acronym, but they just changed their name recently. They are trying to define themselves as export management companies.

Senator BOSCHWITZ. That is a very dangerous thing to do, changing an acronym.

Mr. SWENSON. Yes, they can get lost forever.

Senator BOSCHWITZ. Do you interact with people like that?

Mr. YONGE. Yes, sir, constantly. This is one of the biggest functions of the board members. The chairman has more duties, obviously, but the board members like myself and Mr. Heldridge do this a lot. I was in Florida last week talking to the Florida Exporters and Importers Association, who were having a meeting jointly with the South Florida Manufacturers Association. This is the type of thing that we are doing and continue to do to get the word out.

Senator BOSCHWITZ. Pardon my ignorance, but is being a director of Eximbank a full-time job?

Mr. YONGE. Yes, sir. There are five directors, which includes the chairman and the vice chairman.

Senator BOSCHWITZ. We are complimented that the two of you would come this morning. Some of the small business associations that are here in town really do not deal with small businesses that export so much. That is not their principal focus, but they have part of their focus directed to that.

The export managers' association, Doug, is that replicated in many States? You said it was in Minnesota.

Mr. SWENSON. That I do not know.

Mr. HELDRIDGE. Yes, sir. There are world trade clubs, international trade organizations. Almost every major city has an organization that is most interested in world trade or exports and imports.

Senator BOSCHWITZ. I keep hearing at these hearings that exporting is something of a mystery to small business. There seem to be many hurdles that effectively prevent small business from becoming interested. They either hear, perceive, or know of hurdles, and that keeps them from wanting to become interested. These groups, I would suppose, are an effective manner of overcoming that.

Mr. Werling, you very patiently have sat there. I have your testimony here as well. Why don't you proceed.

Mr. Swenson, I suggest that you get to know these gentlemen who have come over. Mr. Werling, why don't you proceed.

STATEMENT OF EVAN A. WERLING, VICE PRESIDENT FOR FINANCE, FRENCH OIL MILL MACHINERY CO., PIQUA, OHIO

Mr. WERLING. I would like to thank you for the opportunity to be here today.

I am also very pleased that the gentlemen from the Eximbank are here. I am familiar with all of these gentlemen.

The French Oil Mill Machinery Co. manufactures quite a broad line of products. We are a small company. We primarily manufacture equipment that is used to extract vegetable oils from corn, cottonseed, flaxseed, and so on.

I have a prepared testimony to submit for the record. I will summarize; however, I will follow the outline of the prepared text.

Senator BOSCHWITZ. Yes, do that. It makes it a little easier.

Mr. WERLING. Our company employs approximately 250 people at this time. We are located in Piqua, Ohio, and we will be 83 years old this year.

Senator BOSCHWITZ. Where is Piqua?

Mr. WERLING. Just north of Dayton, Ohio. Until 2 years ago, approximately 50 percent of our business consistently pertained to the export market. We are talking about durable goods and manufacturing equipment. Our primary competitors at this point in time, primarily come from Europe. The U.S. competitors, because of the economic environment and financing environment, are doing very little manufacturing in the United States anymore.

During the past 2 years, the French Oil Mill Machinery Co. has not been able to obtain any competitive financing, from either the private sector or the U.S. Export-Import Bank for any of its potential sales in which it faced a competitive situation with other countries. As a result, we have had over $15 million in business where we have garnered absolutely zero in new contract orders during the past 2 years because our foreign trade competitors from Europe were offering interest rates and financing terms in line with the OECD arrangement that our country negotiated with them.

They were not violating the OECD arrangement. They were offering the exact financial terms negotiated in the OECD agreement. Our Eximbank did not offer comparable financing. As a result, we were the only bidder not offering competitive financing

terms. This has been going on for the past 2 years and it still goes on today. As a result, we had a layoff for the first time in our 83-year history of 30 percent of our employees. This happened about 2 months ago.

Our business is in very sad shape when it comes to the export market, because orders we negotiate this year will not hit our shop until 6 months or 9 months from now. The orders we should have gotten during the last year and a half are orders we should have in our shop right now. But we do not have them because our foreign competition from Belgium, the United Kingdom, and so on, have the orders.

This has created a double whammy for our company because we are also very much involved with the Domestic International Sales Corp., which was established by our Government to encourage small businesses to go into the export market. We did that. We got involved with the Domestic International Sales Corp. We put more than 50 percent of our effort into developing an export market, and we were recognized as the world leader in our products throughout the world, from a quality standpoint and a technology standpoint. Now, because we have not been able to obtain competitive financing, not only are we losing new export business, but because the parent company requires operating cash, we have to transfer the accumulated benefits of the DISC, which have accumulated over the years, back into the parent company as a deemed distribution. These distributions are then taxable to the parent company. Se we are losing our accumulated DISC benefits as a result of the lack of competitive export financing.

Other small manufacturers that have placed this much emphasis on the export market and have a DISC are probably facing the same circumstances.

Our company has been a leader in the export market. During 1982, at the request of the Department of Commerce, the George Washington University did a study on our company, as well as several other companies in the United States, to determine what the effect of inadequate or nonexistent export financing was having on our companies and on jobs in America. The results of their study, listed on page 2 of my report—first of all, the firms that they visited were small, medium-size well-managed competitive leaders in their industry, providing superior, price competitive products. They were not companies with bad management, manufacturing inferior products, looking for Government handouts. They were the leaders in their industry.

The second finding of the study concluded that these companies are losing the competitive battle because they cannot obtain competitive export financing. The study reported that some companies were facing financing as low as 6½ to 7½ percent. We have not experienced financing that low. Our competitors have been complying with the OECD negotiated agreement. We have not seen any financing that has violated that agreement. However, we cannot obtain financing that is in line with the minimum terms OECD agreement that our Government negotiated.

Third, if our Government would match the competition, it would be profitable. That certainly stands to reason because it is more

profitable to have business and people employed than to have them on welfare and unemployment.

Probably the most important conclusion that came from the study was the fourth one. Without an adequate investment and a change in current philosophy, at best we can expect a reduction in employment of small- and medium-size firms and, at worst, the demise of superior companies that are producing superior products for the United States. As I said before, our employment is down 30 percent, and our export business faces a very bleak future unless Eximbank programs become more competitive.

Today we are being asked to compete with foreign governments, not with foreign competition. We are being forced to compete with financing supported by foreign governments. We, as small business, cannot compete with foreign governments.

Included in my testimony with exhibits A and B, I have additional documentation on our competitors. Previously, before Senator Heinz' subcommittee, I presented other documentation, which the Eximbank also has, concerning numerous competitors throughout the world and the type of financing they are offering. I believe all of our competitors, financing has been in line with the OECD negotiated agreement. The ones included in my testimony today are also in line with the OECD agreement. But we cannot obtain that kind of financing from our Eximbank, even though they helped negotiate the OECD agreement.

For years, Congress has been trying to encourage small manufacturers to enter the export market. But without assurance that there is going to be a consistent supply of competitive export financing, why should a small manufacturer venture into the export market and end up like us. We got involved in the export market, and all of a sudden we had the rug pulled out from under us. Our export business is falling and falling hard, and we are not getting Eximbank support.

We can develop all kinds of programs at the Eximbank and at the Department of Commerce and at all the other Government agencies to contact small business, to tell them about the export market. But unless we have the basics, the foundation to support small business exports, a small company would be foolish to get into the export market today. One of the most fundamental things they must have is the assurance that they are going to be able to have consistently competitive export financing. Otherwise, small business will end up putting a lot of capital and effort into the export market, only to find, that because of a change in public administration, they can no longer obtain support for their exports.

If we had a competitive export financing program, I can assure you the regional banks that work for small business would certainly spread the word very quickly. The NFIB would spread the word very quickly. The National Association of Manufacturers would spread the word very quickly. The U.S. Chamber of Commerce would spread the word quickly, because they are all interested in small business in the export market.

Senator BOSCHWITZ. Are you a member of NFIB?

Mr. WERLING. Yes, I am. In fact, I have been working with the NFIB, the National Association of Manufacturers, the U.S. Chamber of Commerce, the Council of Small Business, and the Coalition

for Employment Through Exports to try to bring the small business export interests together. I think we are going to succeed with that.

Senator BOSCHWITZ. At any point that you feel you have stated your problem and you want to stop for a moment, we will turn to the folks from the Eximbank.

Mr. WERLING. I have stated the basic problem, but I would like to continue just a little bit more, finishing out the problem. This morning the chairman of the Bank made a statement on page 4 of his testimony that during the past year they have not turned down any applications, and they have a surplus of funds.

I want to say that just last September or October, after the chairman of the Bank testified before Senator Heinz' subcommittee, where he said the Bank would be fully competitive, I went to Bogota, Colombia, to negotiate a potential sale for our company. Our customer wanted only one thing, which he put on his letterhead paper, and I brought back to the United States and discussed with Mr. Draper. Our customer said: If your country will not provide competitive export financing, we will not consider you in the final bid specifications, because all the other countries from Europe are providing financing along the OECD arrangement.

So I came back to the United States, at considerable expense, just to plead for competitive financing along the lines of the OECD arrangement which our country negotiated, and I was turned down. Our company has never been denied financing, but in every situation we have been denied competitive financing. It is not a question of whether you are denied financing. It is a question of whether you are denied competitive financing. Exim can finance the new high technology companies or other small business with noncompetitive financing if they do not have foreign competition. But that does not represent 90 percent of small businesses in America. Ninety percent of small businesses in America have foreign competitors. If the competition can offer more favorable financing than we can, in this day and age with a strong U.S. dollar, we have no chance. That is what we are running into.

So the Bank's statement that they have not turned down any applications, I can fully appreciate that and understand it, but when you submit noncompetitive financing in your contract proposal to the customer and you lose the order, you do not end up filing an application for Exim financing. Competitive financing is not there, and we are losing business.

If you go to exhibit E, for a number of months I have been corresponding back and forth with the Export-Import Bank, you will notice on exhibit D, I wrote a letter dated November 19 to Mr. Draper, chairman of the Bank, where we finally consolidated the problems really facing small business. The chairman of the Bank then responded in exhibit E.

I would like to point out several things. No. 1, in the first paragraph, he acknowledged that my assessment of the Bank's noncompetitive position is essentially correct. At the bottom of the second paragraph he states, and I quote:

> You and I share the same ultimate goal of a "level playing field" for U.S. exporters, but we must be careful that we do not push our objective faster than feasible or

build a bigger goal than is supportable. We do not want to win the battle and lose the war.

We do share the same goal. I totally concur with Mr. Draper. But I will tell you, if we continue waiting much longer, the war is going to be over and we will have missed the battle altogether because we are losing it right now and we do not recognize it.

Senator BOSCHWITZ. From my standpoint, it would be a convenient time to listen to the folks from Eximbank, if you feel you have presented the problem.

Mr. WERLING. The basic problem has been presented, yes.

Senator BOSCHWITZ. Is there any other aspect of the problem that you want to state before we turn to these gentlemen?

Mr. WERLING. I would like to cover one further thing which outlines the existing problem facing small business today. On page 8, look down at item 3. At the present time, specifically for small business, there is a problem in the definition of small business. Right now, the definition is that it is a company with annual sales of $25 million or less. There are many small companies in the United States that have $20 million to $24 million of domestic sales at the present.

Senator BOSCHWITZ. Is that an Eximbank definition?

Mr. WERLING. That is an Eximbank definition; that is not a charter definition. That is an Eximbank board definition.

Senator BOSCHWITZ. That definition is not an SBA definition.

Mr. WERLING. No, it is not. But there are many small companies in America that are approaching $25 million in domestic sales. Consequently, if they have $1 million of foreign sales, they are no longer considered eligible for the small business program. So they lose the incentive to get involved in the export market. I think that one of the things that needs to be done—and I have already submitted this recommendation to the Eximbank—is that the definition of a small manufacturer be revised to reflect its involvement in the export market, not the total market, so we can encourage them to get involved in the export market.

The second thing is, we should not base it strictly upon 1 year's sales. Our company, for example, is very high technology, and we are involved with a significant amount of engineering. We could end up having very few sales this year but develop a project next year which might be $11 million. When you take 1 year's sales and it exceeds the guidelines for a small manufacturer definition, all of a sudden that company is no longer a small manufacturer. Yet, if you take 2 years together, that company certainly is qualified as a small manufacturer. The circumstances have not changed; it is just a reflection of when their sales end up being recorded on the record.

At the present time, there are more serious problems than that. We are facing a situation where, under the small manufacturers' program, they will support financing of U.S. export sales only up to $2.5 million. What this does to a company that is involved with a lot of engineering and erection, most of the sales do not end up qualifying for the small manufacturers' program because of the artificial top sales dollar limitation.

I have a very good example for you right now. We have a proposal into the Eximbank right now—which has not been accepted, I

might add—for an $11 million sale to Egypt. It is very big for our company, because we are small business, under $25 million a year in sales. The problem is, No. 1, that does not qualify under the small manufacturers program for support. It also does not qualify as a medium-term financing program for support, because they have an artificial cap of $5 million of sales that they will support there. The only way we can get any support at all is through the direct credit program. As of this point of time, we have no response at all, from a positive standpoint from the Eximbank, as to whether or not even that sale is going to be supported. Here is an opportunity for us to bring a lot of work back to Ohio, get our employees back to work, and we do not know whether any program of the Eximbank is going to handle it.

The small manufacturers program will not handle it. The medium-term program will not handle it because of the artificial upper limitation on the sales value. So we may end up losing this one also.

Senator BOSCHWITZ. And you feel that conventional bank financing simply will not be competitive?

Mr. WERLING. No, because we have the same competition worldwide. We are running into the situation where our competition knows that is happening in the United States with the Eximbank. When we to quote on contracts in other countries, we are being faced in the negotiations, when our proposal comes in, with the fact that our competition has already told the customer that we will not provide competitive export financing along the lines of the OECD agreement.

The competition that we run into consistently are all offering the OECD minimum-rate financing. Our country is the only one that is not, among our competition. So our competition is using it as a marketing tool against us, telling our customers that the Americans will not offer competitive export financing. I do not want to mention the country, but one of our customers said:

> What is the matter with the United States? Don't they perceive our country to be as important as the Europeans do? Look, all the OECD countries come in with the same financing, but you, the United States, will not give us that financing and you are part of the agreement? What is the matter? Does the United States not like our country?

They are using that as a marketing tool against us, and we are running into it very frequently. How do you answer that? We have a very difficult time answering that.

Senator BOSCHWITZ. That is why I have asked the gentlemen from the Eximbank to sit here. Why don't you address the problems that Mr. Werling brings up?

Mr. HELDRIDGE. First of all, I would like to say, before I turn it over to Jim, that we do loan at the OECD rate, and it is the minimum OECD rate. I have them right in front of me. Here they are. So I would dispute that statement.

Senator BOSCHWITZ. How much did you make in loans at those rates last year?

Mr. HELDRIDGE. We went to the minimum OECD rate schedule in mid-1982, June or July of 1982.

Mr. BOYD. Excuse me, Mr. Chairman. Let me correct it for the record. In January, under the medium-term credit program that he

is referring to, we went to the minimum OECD rate. There is 1 percentage point added for the commercial bankers involved in the transaction.

Mr. WERLING. And this is the point. Up until January 18, the financing that we could offer the foreign buyer was 2.5 percentage points above the OECD minimum. Today, it is still 1 percentage point above the OECD minimum, because under the small business program and the medium-term program, by design of the Bank—not by the charter—it must go through a commercial bank which adds 1 percentage point. We cannot offer the foreign buyer the OECD minimum rate.

Senator BOSCHWITZ. What is the OECD minimum rate? I read a great deal before this hearing, but I do not recall it.

Mr. YONGE. There is a long term and a medium, up to 5 years. It is 10 percent for the poor countries, 10.85 percent for the intermediate countries, and 12.15 for the rich countries.

Senator BOSCHWITZ. Yes, I read that. I do not know where it is now.

Mr. YONGE. I believe that is in Chairman Draper's testimony.

Senator BOSCHWITZ. Then this is something that you have made available, beginning January 18 of this year?

Mr. YONGE. That is correct.

Senator BOSCHWITZ. So, therefore, you do not have a great deal of loan experience yet.

Mr. YONGE. We have made all of that retroactive for all pending commitments, so that everything that is in-house right now will be at that rate.

Senator BOSCHWITZ. How long have your competitors been offering this? These are the rates that you need? Is that correct?

Mr. WERLING. No, they are not, and the reason they are not is because under the existing——

Senator BOSCHWITZ. You talked about 6½ and 7½.

Mr. WERLING. No, I am talking about the rate, for example, of 10 percent to Egypt. The problem is that our competitors can offer 10 percent directly to the Egyptian buyer. The problem we have is that under the small manufacturers' program, we get the 10 percent that goes to the commercial bank, which then adds on 1 percent. So we can offer a minimum of 11 percent to the foreign buyer. We cannot offer to the foreign buyer, under the Exim program, the same financing as is included under the OECD arrangement. That is part of the problem. But it is a much improved program as of January 18 from where it was prior to this.

Right now, we are only at a 1-percentage point disadvantage in offering financing to the buyer. For the last 2 years—Well, I do not want to say for the last 2 years, because the program has changed numerous times. But until January 18, we were looking at a 2.5 percentage point differential.

Senator BOSCHWITZ. Why did it take so long for Eximbank to offer this kind of financing?

Mr. YONGE. This would be before my time, but as I understand the history, the bank has had limited resources. It was in the process of some rather strenuous negotiations with our trading partners to bring the minimum levels on the OECD up, and using our resources to target specific exports to the best we could and not be

losing money hand over fist in that we were borrowing at a much higher rate than we were lending. For a couple of years, our rates were out of line with the OECD minimums, but now the OECD minimums have been raised up to these levels and we are at the same level. Each country in the OECD adds on to this minimum rate structure certain fees and insurance premiums and things of that nature, which we have, as do all our competitors. All of those fees, while they vary from country to country, basically are the same. So from an interest-rate evaluation, we are all about equal right now.

Senator BOSCHWITZ. Excuse me.

[Recess taken.]

Senator BOSCHWITZ. Has the financing improved? Now, instead of 2.5 percent, it is 1 percent?

Mr. WERLING. There still is a 1-percent differential. However, I do not think the 1-percent differential is going to be the straw that breaks the camel's back. Significant improvements have been made. I recognize that and acknowledge that. I think the biggest problem facing us right now is that now we still have a $2½ million cap where the Eximbank will finance 85 percent of the loan, because our competition does not face a cap.

Senator BOSCHWITZ. Before we get into that, let me ask you this. You can deal with 1 percent, either through the price of the product or through other means?

Mr. WERLING. Let us put it this way. We are willing to increase our loss or shave our profit, if there is any, in today's environment. But we are not going to lose a sale because of 1 percent.

Senator BOSCHWITZ. I would think not.

Mr. WERLING. But, what is happening also now is that we are not looking at just 1 percent. If a sale is over $2.5 million, it falls into another program where only 65 percent of the sale is financed. So what happens then is, we also have to make up the interest differential from a commercial bank, at a higher rate, for the differential between 65 percent and 85 percent. The competition generally is coming in with 15-percent down and 85-percent financing, which is the program of the small manufacturers at the Eximbank. So anything over $2.5 million, we not only have the 1-percent interest problem, but we then drop down to 65-percent financing, unless the small manufacturer wants to make up the interest differential on 10 percent of the other 20 percent.

With the strong dollar, the 1 percent is not going to break our back. But when you add another straw, of taking the financing down to 65 percent from 85 percent, that is.

Senator BOSCHWITZ. Would you respond?

Mr. YONGE. Yes, sir. The small manufacturers' discount loan program is a program, as has been stated, that is $100 million. That is our allocation in the current fiscal year budget for small businesses. Once you get into the size of an $11 million sale, the Eximbank has determined that does not fall into that small business program. We would hope more small business to use the program. Now perhaps this year because we do not have much business, we can say, "Sure, we will go ahead and do that," but that is not what we have been asked to say, nor have we said that. So the actual case that Mr. Werling is speaking of is a direct loan case that goes into our

regular direct loan program, and I am sure it is being processed in that program right now.

Senator BOSCHWITZ. But there it has a 65-percent limit?

Mr. YONGE. The program in the direct credit is a 65-percent direct credit, and then if the exporter will come up—We will go up to 75 percent, if the exporter will also go in 10 percent at the same rate, with our guarantee. So again, we are offering the full faith and credit of the U.S. Government in guarantees, in addition to the direct dollar loans, which we feel is another way to better utilize our assets. We can obviously guarantee a lot more loans than we can grant actual hard dollars for. So that is the direct loan program that he is speaking of, where he could enter on the 75/10, which gives him a total of 85-percent financing, and the 15-percent cash downpayment makes the whole deal.

Senator BOSCHWITZ. It would seem to me, Mr. Werling, that you would experience more problems with the strength of the dollar in the price of your goods than in the loan.

Mr. WERLING. That is a very significant problem. However, when we go in on the initial bid, if our price is higher and we do not offer competitive financing, we do not get included in the second round because we find that traditionally what is happening is that the companies that have competitive financing are being invited back for the second round of negotiations. Since we are neither competitive in price nor financing, we are not invited back for the second round. The problem is that when you deal on a contract basis, you do not offer your final price until you get to the second round of negotiations. So you have to estimate what the competitors' prices are. But if you go in with a higher price and noncompetitive financing, which has been the situation in the past, then you are not going to be invited back for the second round of negotiations.

When it comes to financing, it is usually a pretty fixed situation. The customer knows he is going to be able to obtain it from the various bidders. He knows he can negotiate on price, but he knows he generally cannot negotiate on financing. So you are basically giving him an immovable situation where he knows he cannot negotiate and we cannot deliver on. So in the past it has been a very significant problem. It is not as big a problem today, with the reduction that they made on January 18. That was a very significant move on the part of the Bank. But we still have a $2.5 million cap on which they will finance the equipment, before it goes down to 65-percent financing.

Our competition does not have that. In fact, on exhibits A and B, which you will see attached, we are looking at $4 to $5 million contracts, with 85-percent financing at the OECD rate.

Senator BOSCHWITZ. You just said it was 75 percent.

Mr. YONGE. Well, they can go up to 75 percent, and then we add another 10, so it is 85 altogether on the direct loan side. But I think we are getting away from the purpose of this hearing, which is how do we interact with small business. I think Mr. Werling's case may be a good one to talk about, but it does not seem to me to be the typical small businessman's case that would come before the Eximbank.

Mr. WERLING. I would like to respond to that, if I may. The National Federation of Independent Businesses has asked me to work on this issue with them. The National Association of Manufacturers considers our company representative of small durable goods manufacturing companies in the United States. The U.S. Chamber of Commerce considers our company representative of small manufacturers in the durable goods industries in the United States, as does the Council of Small Business of the Chamber. So I do not agree at all that we are not representative of small durable goods manufacturers in the United States. I do not think the Department of Commerce would have wasted their time having George Washington University do a study on us if they had perceived that to be the case.

Mr. YONGE. I do not mean to say that his company as a whole is not, but the particular case he is talking about is above what we generally look at as a small business case, $11 million.

Mr. WERLING. I agree. That particular situation is not a situation we run into every year. I mentioned that to you because that is the only big sales opportunity we have facing us at the present time, since the Bank has changed their program. But I totally concur with Mr. Yonge, that is not typical of the average sale that a company our size would make.

Senator BOSCHWITZ. Everybody draws on his own experience, and I would like to make a comment. I have a cousin who is in the business, not totally unlike Mr. Werling's, of making dryers. It is a company by the name of Ball & Murphy. They are located in London, a Latin American company. He is a small company, but he certainly would qualify for the $25 million a year, if that is the level of total business. But he could go for a $5 or $6 million contract. That is not unusual at all for a large drying unit, although it might be expanded over a period of years. How long is the $11 million contract? Is it all over 1 year?

Mr. WERLING. It would all be installed in 1 year, but it would take us approximately a year to manufacture and pull the whole thing together. It would be installed probably the following year. It basically would be a 2-year project.

Senator BOSCHWITZ. Yes, his project may be even another year added to that. It is still small business, you know. It would seem to me that there might be some flexibility. I understand that if you have a $100 million loan and somebody comes along and takes 10 percent of that, it seems to me that there might be some flexibility, as long as there is not a very large demand on those funds. If the demand heightens with a series of small requests, that total lending authority then might be more applicable. But you do not have the flexibility?

Mr. YONGE. I think we have the flexibility, Senator. But I think it is a matter of trying to set some policies that our constituents know that is our policy and not be shifting all the time. We also find, I think, as is human nature, that it is always harder to turn something off once you have turned it on. So if we get into a budget problem, and we have made exceptions to what we consider a well-thought-out limit, I think we would get a lot more criticism than we would if we had a well-reasoned policy to begin with.

We think we have that. This is the first time I have heard someone say that the $25 million level is not adequate. I have just not heard that complaint.

Mr. WERLING. I did not say it was not adequate. This was an area where I recommended a modification to how they perceive it. But I would like to make a comment here, because this is something that is very disturbing to small business. We constantly hear about the budget problems, yet we heard this morning that there is an excess of funds that cannot be used. Last year there was over $1 billion of funds that were not used. Yet we do not have competitive programs.

Senator BOSCHWITZ. Does the lack of funds reflect on the budget of the United States? In the memo that I have, it says that the Eximbank receives no appropriation.

Mr. YONGE. That is correct, Senator. We are in the Federal credit budget, if you would, where our lending level is authorized by Congress each year.

Senator BOSCHWITZ. We only authorize the borrowing that you do through the Federal financing bank?

Mr. YONGE. That is correct.

Senator BOSCHWITZ. And we have authorized you to loan $100 million on these kinds of projects; is that correct?

Mr. YONGE. That is correct.

Senator BOSCHWITZ. Whether or not you loan it has no impact on the budget or the deficit?

Mr. YONGE. That is a very exotic computation. but theoretically, yes.

Senator BOSCHWITZ. Mr. Werling, why don't you conclude, if you will?

Mr. WERLING. If we are truly going to get small business for the long term to develop the export market, it is our assessment and also the assessment of the small business organizations that we are working with that charter amendments are going to have to be made to the Bank so that, No. 1, its primary purpose is clarified. When the private capital markets are not competitive with the international trade agreements, the Eximbank is going to have to pick up the slack to ensure a consistent supply of fully competitive financing. If that is not going to be available, we will see small business get involved in the export market and a few years from now be wiped out.

Once small business gets badly burned, like we are being burned today, if they get wiped out in the export market, they are not going to go into it again. We talk about how this could cause the budget to go way out of line if we had fully competitive programs, but on the other hand, the charter of the Bank's directive to the administration is that if there is subsidized financing that exists among the foreign competition, it is the responsibility of the Bank's administration and the Federal Government to negotiate an end to that subsidized financing. The whole point is, if our Federal Government is not successful in negotiating an end to subsidized financing, do not put it on the shoulders of small business by giving us noncompetitive programs. Although we do not believe in "subsidized financing," we cannot put an end to it. We cannot control

what Paul Volcker does at the Federal Reserve System to change commercial banking rates.

Senator BOSCHWITZ. And you say that other countries, while they do not have an $11 million limit, have a higher limit than the limit that the Export-Import Bank has?

Mr. WERLING. Let me put it this way. I am not aware of any limit that we run into with the Belgians, the people from The Netherlands, the United Kingdom, or West Germany. We have never seen a situation where any of them have quoted "85 percent financing up to $3 million, and if the sale is over $3 million, we will drop down to 65 percent." We have not run into any situation in the last 2 years where we have been able to offer comparable, the same as, or nearly the same as, financing.

Senator BOSCHWITZ. The $11 million order, the entirety or 85 percent of it, will be financed by the Belgians or Dutch or whomever at the OECD rate?

Mr. WERLING. That I do not know, because that part of the bid has not been opened yet. We do not know at this point of time. This is our first large contract of this nature in several years. We will not know that until the bid opening. I cannot respond to you on that.

Senator BOSCHWITZ. I appreciate your testimony. Is there anything else you wish to say?

Mr. YONGE. Senator, could I just take this opportunity to say something? I feel so strongly about small business because I come from that area. I am not sure that I intended to be in small business all my life, but I have been. I just feel that the small businessman has so many problems just keeping his head above water that telling him about our program, getting the information to him somehow, communicating with our small businessman is essential.

I had the opportunity yesterday to attend a conference being sponsored by Congressman Tallon from South Carolina, where he had about 100 of his small business constituents in his district up here and had various people speak to them about things that would interest small business, of which the Eximbank was one. I think that sort of thing is just dynamite. If we could do more and more of that, we could really get the message across to the small businessman, and we have to keep telling him.

Tomorrow, he has to worry about OSHA or the Fair Labor Standards people or the Wage and Hour people. The small businessman has a bunch of things on his mind. Unless you keep getting that word out, he is not going to get exposed to the export business, and I think it is a great business. It is a great opportunity for a small businessman.

Senator BOSCHWITZ. We have held those kinds of programs in Minnesota as well, in conjunction with Congressman Frenzel and the other Senator from our State.

We thank you, Mr. Werling and Mr. Swenson.

I hope you gentlemen from the Eximbank, if you have time, will stay on;

[The prepared statement of Mr. Werling follows:]

APRIL 7, 1983

TESTIMONY OF

EVAN A. WERLING
VICE PRESIDENT - FINANCE
FRENCH OIL MILL MACHINERY COMPANY

BEFORE

SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT
OF THE
SENATE COMMITTEE ON SMALL BUSINESS

ON
THE EXPORT-IMPORT BANK

INTRODUCTION

Mr. Chairman, members of the Senate Subcommittee on Export Promotion and Market Development -- I am Evan A. Werling from the French Oil Mill Machinery Company, which is located in Piqua, Ohio, a community of approximately 20,000 people. French Oil is a small company (employing approximately 250 people) which exports approximately 50% of its sales volume. Our company designs and manufactures machinery used in the extraction of edible vegetable oils (such as soybean oil, corn oil, sunflower oil, etc.), separation of water from sugar cane, dewatering of natural rubber and synthetic polymers as well as the molding of rubber into various products, from tennis balls to automotive engine gaskets.

Our company is a technological leader in its various product lines and is known for its high quality workmanship and product durability. We export to many of the developing countries of the world where there is a dire need for our products, which are used to process raw agricultural products into edible oils and foods for the countries' inhabitants and for animal production. Without this machinery, developing countries are forced to sell their raw agricultural products as commodities -- thus lessening their ability to be self-sufficient and viable importers of other American-made goods.

SMALL BUSINESS

EXPORT FINANCING

During the past two years, the French Oil Mill Machinery Company has not been able to obtain competitive financing from the U.S. Export-Import Bank for any of its potential export sales, and has lost more than $15 million of potential sales to foreign trade competitors, who offered financing (supported by their governments) in accordance with the OECD agreement -- of which the U.S. Government is a participant. Today, French Oil employs approximately 100 fewer people because we could not obtain competitive export financing from the U.S. Eximbank. The sales opportunities were there; competitive financing wasn't!

During 1982 (at the request of Richard R. McElheny of the U.S. Department of Commerce) Messrs. Frederick Amling, Fariborz Ghadar, and Yoon Park of the George Washington University School of Government and Business Administration conducted a study of French Oil and several other small to medium-sized companies to determine the effect Eximbank policy was having on export sales and employment in the United States. The primary findings of the study are as follows:

A. "First, the firms we visited are small and medium-sized, well-managed, competitive leaders in their industry, producing superior, price competitive products."

B) "Second, they are losing the competitive battle because their foreign competitors are able to obtain low interest rate financing against which the American firms cannot compete. The foreign loans were as low as 6-1/2 to 7-1/2 percent in 1981 and 1982."

C) "Third, if the U.S. Treasury made low interest rate loans available to exporters, the actual rate of return on its investment would be substantial. At loan interest rates between 6 and 10 percent -- rates that would normally be competitive with loans provided by foreign governments -- the actual return to the Treasury would be between 18-20 percent. In short, export loans are an excellent national investment with the bulk of the returns realized in the first two years."

D) "Fourth, without this investment, at best, we can expect a reduction of employment in the small to medium-sized firms and at worst, the demise of superior companies that are producing superior products in the United States."

On September 16, 1982, before the Senate Banking Committee, Subcommittee on International Finance and Monetary Policy, I presented extensive documentation concerning the financing terms and conditions being offered by our foreign trade competitors and supported by their respective governments. In today's testimony, I have included additional Exhibits ("A" and "B"), which represent export financing being offered by our foreign trade competitors. As you can see from these exhibits, Eximbank medium-term financing for small manufacturers fell far short of the financing terms and conditions offered by foreign trade competitors and supported by their respective governments.

For years, Congress has been trying to encourage small manufacturers to enter the export market. It's no wonder small to medium-sized manufacturers are less than enthusiastic about export sales when they cannot be assured of an adequate supply of consistently competitive export financing. Even the Eximbank's annual competitiveness report for 1981 (finally released in February, 1983) acknowledged that the medium-term programs are "relatively uncompetitive." The results of a confidential survey of the Bank's clients concluded: "In the opinion of the exporters and bankers surveyed, the absolute value and relative competitiveness of Eximbank deteriorated across the board in FY 1981. No program nor any element of a program was judged to have improved its effectiveness or relative competitive position in 1981. Everything was judged similar to 1980 or worse" - (Exhibit "C"). Also attached (Exhibits "D" and "E") is

correspondence between our company and the Bank. You will note that in Exhibit "E" the Chairman acknowledged the noncompetitive position of the Bank's medium-term programs. We are pleased to acknowledge that on January 18, 1983 the Directors of the Eximbank revised elements of its Medium-Term Programs to a much more competitive position. Despite this change, the Medium-Term Programs still do not afford fully competitive financing to support U.S. sales and U.S. jobs.

Considering the conflicting requirements in the present Eximbank Charter, the Bank's Administration has probably done a good job in trying to accommodate these incompatible responsibilities.

RECOMMENDATIONS

The Department of Commerce identifies the greatest opportunity for export growth to be through expansion of small business. Presently, one out of every five manufacturing jobs is export related. Small and medium-sized companies can play a major role in reversing the negative employment situation facing our economy today. However, for this to happen, (1) adequate lending authority and insurance must be available to the Bank to support consistently competitive export financing programs and (2) Eximbank's Charter must be revised to clarify its mandate and to assure consistently competitive programs for the future. During the past several years, neither of these conditions has existed!

Therefore, we submit the following recommendations:

1) AUTHORIZATION LEVELS

Our company supports fiscal 1984 direct lending authority of $6.5 billion. However, since the Bank receives no taxpayer dollars, it serves no purpose to establish a $3.83 billion direct lending authorization which can be increased at a later date with a $2.7 billion supplemental request. To legislate lending authority on a piecemeal basis will not solve the problem of noncompetitive export financing programs. Small business cannot afford to lose more sales and American workers cannot afford to lose more jobs because our government does not provide consistent, fully competitive export financing in accordance with the agreement it negotiated with other OECD countries.

We support the President's recommendation for $10 billion in loan guarantees for fiscal 1984.

Numerous proposals have been suggested, such as a "War Chest Fund" to support the Bank's activities. Although the concept of the war chest fund sounds desirable, we would prefer to see the Eximbank's Charter modified to require the Bank to provide fully competitive

export financing programs on a regular basis and to assure that all programs are equally competitive. If this is done, and if the Bank is directed to return to Congress for additional lending or insurance authorizations (should it need to do so) rather than weaken export credit programs, supplemental programs such as the war chest fund should not be necessary.

2) CHARTER MODIFICATIONS

The Charter should be modified to clarify that the primary purpose of the Export-Import Bank is to provide consistent and fully competitive export financing. Any directive to be self-sustaining should be subordinate to the Bank's primary purpose. Bank management should never again be forced to operate under conflicting primary requirements.

The Bank should be required to be consistent and fully competitive in all programs. Inconsistent, everchanging financing programs for small business are one of the primary reasons small business has not been able to effectively participate in the export market.

We fully support Senator Heinz' bill (S. 2600) to stagger the terms of the Bank directors. This change is necessary to assure better continuity of the Bank's decision-making capability during periods of political change.

We highly recommend Section 3 (d) of the Charter be strengthened to require reactivation of the Bank's Advisory Committee. However, we suggest the Advisory Committee be expanded to at least twelve (12) members so a broad representation of business and labor can be achieved. A minimum of three (3) representatives should come from small business. We further recommend the Advisory Committee meet at least quarterly and, as one of its duties, issue an annual, independent report concerning the competitiveness of the Bank's programs.

We have concern over the Bank's $40 billion support limit for credit, guarantees, and insurance. Considering the significant change in the world financial situation during the past several years, it is quite probable that requirements for the Bank's support will fluctuate in an erratic pattern during the next five (5) years. During some of those years, there may be significant demand for the Bank to support U.S. exports. On the other hand, if the world economic environment improves significantly and private financing becomes more readily available and competitive, requirement for Eximbank financing may diminish. Therefore, Congress should give serious consideration to eliminating any reference to Eximbank credit, guarantee and insurance ceilings in the Charter and control the Bank's activities through the annual budget process.

The Bank should be prohibited from weakening any export credit program -- should it find its annual authorizations less than adequate during any fiscal year. Instead, the Charter should be amended to assure Eximbank returns to Congress should it find its authorized support levels to be inadequate.

3) SPECIFIC SMALL BUSINESS PROBLEMS

In addition to the foregoing recommendations concerning Charter Modifications, numerous problems exist with Eximbank's Small Manufacturers Program:

a) The definition of a small manufacturer presently has no relationship to the small manufacturer's export volume. Presently the Small Manufacturers Program is available to companies with prior-year annual sales of $25 million or less. We suggest this wording be modified so the Small Manufacturers Program would apply to companies with prior-year export sales of $25 million or less.

b) We further suggest that some criteria other than one year's export sales be used to determine when a small manufacturer no longer qualifies for the Small Manufacturers Program. For

example, a better measurement to determine whether a company continues to qualify as a small manufacturer might be to average the company's last three fiscal year's export sales. By doing so, irregular sales patterns would not have the effect of excluding small companies from the Small Manufacturers Program.

c) Presently, the Eximbank's Small Manufacturers Program will support U.S. sales content up to $2-1/2 million. The $2-1/2 million is an artificial limitation which restricts the ability of small companies to use the Small Manufacturers Program and, therefore, should be eliminated. We understand the Bank is presently somewhat flexible on this ceiling; however, no ceiling should be placed on the amount of sales that will be supported under this program.

d) The interest rate offered to small business customers is not at the OECD minimum rate. It is 1% higher than the OECD minimum rate, since the Eximbank directs the Small Manufacturers Program through the commercial banking system.

4) DOMESTIC INTERNATIONAL SALES CORPORATIONS (DISC)

As a representative of small business, we have serious reservations concerning present proposals to initiate substitute legislation

which would replace Domestic International Sales Corporations. We request this committee take special care to assure small business is not driven further out of the export market by pending legislation to replace Domestic International Sales Corporations. At this time, we are not prepared to give specific recommendations concerning pending legislation; however, we are presently working with the National Federation of Independent Businesses, the National Association of Manufacturers, and the U.S. Chamber of Commerce to determine how substitute legislation might be structured to encourage greater small business participation in the export market.

SUMMARY

As a small manufacturer, we would prefer to use private capital markets to finance export sales. However, when the Federal Reserve Board raises private borrowing rates to levels which are not competitive with financing supported by the governments of our foreign trade competitors, small business has no place to turn but to the U.S. Export-Import Bank. Unfortunately, during the past several years, Eximbank programs have not been competitive.

During the past year, Eximbank administration stated that no one, from the President on down, believes in subsidized export financing. We fully support the position of the President and the Bank's

administration; however, the Directors of the Bank have a directive to negotiate a reduction to any real or perceived financing subsidies being offered by our foreign competitors. If these negotiations are not successful, the Bank's administration should not have the alternative of developing noncompetitive U.S. export financing programs to compensate for unsuccessful negotiations. Unfortunately, during the past several years, this is exactly what has happened. The result has been a loss of U.S. export sales -- and a significant loss of American jobs to foreign countries.

Without adequate, fully competitive export financing from the U.S. Export-Import Bank, additional small businesses will be blocked from entering the export market and many existing small businesses will not be able to remain in the export market -- unless they transfer their export production to a foreign country that offers competitive export credit programs. Enactment of Export Trading Company legislation was a positive step toward helping a limited number of small companies in the export market. However, Export Trading Companies will not alleviate the need for consistent and fully competitive export financing.

Congress should never again allow the Eximbank to become as weak and unsupportive of American exports and American jobs as it was for the past two years. Congress has requested small companies take a more active part in the export market. For this to happen, Congress must change the Charter of the Eximbank so it provides aggressive, consistent and fully competitive programs to support the export sales of small business -- as well as big business.

E. A. Werling
Vice President - Finance

EAW/dlm

EXHIBIT "A"
Page 1 of 2

DE SMET USA CORPORATION
2625 Cumberland Parkway / Suite 200
Atlanta, GA 30339

RECEIVED
NOV 23 1982
ANSWERED

Atlanta, June 29, 1982

Mr. Gregorio Mora S.
Pres-Treas
AGROMORA INDUSTRIAL S.A.
Santo Domingo, D.N. Dominican Republic

Subject: Equipment to be furnished by EXTRACTION DE SMET S.A.

Dear Mr. Mora:

In regard to the conferences we have held and in reply to your telex dated June 14, I am taking the liberty of confirming the following:

1. The contract price without financial charges proposed by De Smet is 185 million Belgian francs.

This price arises out of converting Belgian francs into American dollars at the rate of 45.07 FB/$1.00 US in the following amounts.

Extraction plant	$ 2,990,670
Refining Plant	1,113,688
	4,104,358 x 45.07 = 1 5,000,000 FB's

(handwritten note..new price offered 9/23 3,700,000 including refinery)

For your information the June 25 rate of US dollars against the BF is 47.40 and so the sum of 185 million FB represents on 3,902,953.00 US$ that is, a saving for AGROMORA of US$ 201,405 or practically 5% of the total amount.

2. Issuance of the credit prepared by CREDIT LYONNAIS of Belgium may be modified further by the following payment terms:

10% payable when contract signed

5% against letter of credit when shipped

85% subject to financing at 10% interest annually.

The first payment will fall due on the 28th month, that is, 18 months after principal shipment.

The new credit-granting plant specifies on page 13 the administrative costs and other financial expense.

Administrative expense must be paid in cash to the bank.

Other expenses may be added onto the total credit amount and be subject to financing.

4. The possibility of including prepayments in the financing on the contract amount has been regarded by De Smet as acceptable.

5. Due to the grace period in payments, the quantities payable at the 28th, 34th and 40th months are important to AGRAMORA.

For this reason we suggest payment of intermediate interest during the 16th and 22nd months. This would represent a very considerable saving to your cash.

The attached sheets show clearly the savings that would be made.

6. Finally as regards the guarantee it would be indispensable to secure:

- Approval of the Monetary Committee

- Guarantee from a local bank such as the ROYAL BANK OF CANADA.

There being nothing further and hoping to be favored with your order I remain

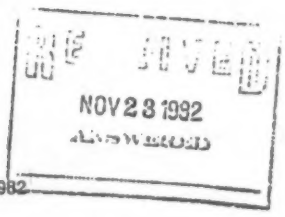
cordially

DE SMET U.S.A. CORPORATION

Guy L. Posschelle, Vice President

EXHIBIT "B"
Page 1 of 2

SIMON-ROSEDOWNS Limited
Cannon Street
Hull
England HU2 OAD



June 29, 1982

Granja Mora, C. por A.
Santo Domingo, Dominican Reupblic

Gentlemen:

We are writing in regard to our quotation dated June 29, 1982 and are happy to list below the financing facilities we can offer you:

a) 10% of value of contract is payable as deposit when contract is signed.

b) 10% of the value of each partial shipment is to be payable in cash against documents and sigh draft in the Dominican Republic.

c) 80% of the contract value is payable in ten equal six-monthly payments covered by letters of exchange at term drawn for each partial shipment and which fall due 30-36-42-48-54-60-66-72-78 and 84 months counting from contract date.

d) The term letters of exchange shall include interest at the rate of 10% annually, figured on the balance pending for payment from the shipping date to the respective due date of each. In the event that a particular letter is not paid when due an additional interest rate shall be payable at the rate of 15% (fifteen percent) annually from the due date until the proceeds in US dollars shall have been received by us here in the United Kingdon.

e) Shipping documents covering each shipment shall be furnished against payment of the sight draft specified in paragraph b) mentioned above and acceptance of the term letters of exchange drawn to cover payments specified in paragraph c) above.

f) Any bank charges or other expense payable outside the United Kingdon shall be for the account of the purchaser.

g) The above mentioned terms are subject to the following conditions:

1. An irrevocable and unconditional guarantee on your part and under terms acceptable to us to make payment in Dominican pesos on the due dates stiuplated under this contract.

2. A declaration from the Central Bank of the Dominican Republic in terms acceptable to the United Kingdon authorities in which it makes itself responsible for immediate and irrevocable transfer of all sums provided for under this contract paid by you in Dominican pesos to our account in the United Kingdon in U.S. dollars.

3. Approval of corresponding authorities in the United Kingdom.

Hopingall these terms will be acceptable to you we send our regards and remain

cordially

IAN RILEY

Sales Manager

EXHIBIT "C"

EXIMBANK REPORT

RECEIVED
FEB
POWERED

February 28, 1983

Eximbank's Annual Competitiveness Report was released last week. It reveals a wide disparity between the Bank's own estimate of its competitiveness and that of the U.S. bankers and exporters who are its clients.

While Exim, in general, found its programs to be adequately competitive, the Bank's users judged that it "deteriorated across the board" in 1981.

Exim is required by law to submit the report to Congress each year. It compares the Bank's programs with those of its major official competitors, particularly in France, Germany, Japan, and the United Kingdom. The Bank is also required to conduct a survey of its clients and publish the results.

The new competitiveness report covers the period January 1, 1981 to December 31, 1981. Although it is dated December 1982, it was not transmitted to the Congress until February 24, 1983.

The report concludes that Exim was "very competitive" in short term programs (repayment terms of 180 days or less); "relatively uncompetitive" in medium term programs (181 days to five years); and "relatively competitive" in long term transactions (over five years).

However, the results of a confidential survey of the Bank's clients were not so cheerful. The report summarizes: "In the opinion of the exporters and bankers surveyed, the absolute value and relative competitiveness of Eximbank deteriorated across the board in FY 1981. No program nor any element of a program was judged to have improved its effectiveness or relative competitive position in 1981. Everything was judged similar to 1980 or worse."

In a letter transmitting the report to Congress, Chairman William Draper concluded: "The recent declining trend in U.S. market interest rates and this Administration's success in negotiating significant reductions in export credit subsidies imply a potentially larger role for private sector financing of competitive export transactions in the future."

The 77-page competitiveness report is available from the Office of Public Affairs, 811 Vermont Avenue, N.W., Washington, D.C. 20571, telephone (202) 566-8990.

The Next Round Of Export Credit Negotiations will begin with preliminary talks in Paris on March 1. The U.S. has already held bilateral discussions with some OECD countries. The formal session

James H. Hogue, Editor

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EXHIBIT "D"
Page 1 of 2

November 19, 1982

Mr. William H. Draper III
President and Chairman of the Export-Import
Bank of the United States
811 Vermont Avenue, N. W.
Washington, D. C. 20571

Dear Bill:

Thank you for your November 12, 1982 letter regarding Eximbank's reason for not offering competitive export financing for our potential sale of palm fruit processing equipment in Colombia.

In your letter you stated that Eximbank has found that interest rates roughly 100 to 150 basis points above those offered by our foreign competitors can be considered competitive financing for U.S.-manufactured-products. You mentioned this was especially true since other government-supported export credit programs require that a guarantee or insurance be obtained -- which would, generally, raise the cost of foreign financing by as much as 1% or more above the Arrangement minimum rates.

The medium-term financing program for which we requested competitive financing does not provide interest rates roughly 100 to 150 basis points above those offered by our foreign competitors. As mentioned during the NAM conference in New York, for an intermediate country, OECD competitors have been quoting 10-1/2% versus a minimum of 12% from our Export-Import Bank. Since a commercial bank must be included in the program and adds 1% interest to the Exim financing rate, then truly 13% is the minimum we can offer. Our experience has shown that financial institutions consistently require FCIA insurance or Exim guarantees for export orders we pursue. Therefore, we also must incur an increased financing cost comparable to the insurance costs of our foreign competitors. As a result, the financing we offer potential buyers of American products is approximately 250 basis points above the financing rates offered by our foreign competitors, when the adders for insurance are considered in both Ex-Im and OECD packages.

Because of this significant disparity between our financing rates and those offered by our foreign competitors, we continue to lose every export sale in which competitive financing is a requirement. The loss of export sales due to noncompetitive financing during the past year and a half has been devastating to our company. While our foreign competitors take in the orders, we are faced with the most severe business

down-turn in our 82-year history, most of which can be attributed to our inability to obtain competitive medium-term export financing for the foreign buyer. Our employees would be working overtime if we had not lost our export business due to noncompetitive financing. Instead, for the first time in our company's 82-year history, we have been faced with employee cutbacks and are planning to reduce our work schedule to a three-day week beginning in December. We cannot continue to be a viable company in the export market without competitive export financing!

During the NAM conference you indicated that for long-term financing, Eximbank provides 12% interest rates versus 11.4% being offered by our foreign competitors. Why does the long-term financing program enjoy only a six-tenths of 1% interest rate differential, while medium-term programs (such as the one used by our company) must incur an interest rate which is 250 basis points higher than those offered by our foreign competitors? It's difficult to understand why the long-term program would need an approximate 200 basis points advantage over the medium-term program. It's equally difficult to understand how the medium-term programs can be classified as competitive, when their financing rates are approximately 250 basis points higher than interest rates offered by our primary OECD competitors.

Bill, I have a lot of respect for your position at the Eximbank and recognize that you have a very difficult job to fill. You have established the first small manufacturer's program in the history of the Eximbank -- for this we are grateful. However, the small manufacturer's program will be of little benefit to preserving jobs in America unless it provides truly competitive financial rates and terms. It's a shame to see Congress implementing multi-billion dollar jobs programs to put unemployed Americans back to work, when American workers are losing their jobs because the products they produce cannot be financed on a competitive basis in the export market. Over the years, Exim has been the only profitable jobs creation program enacted by Congress. With the exception of last year and the current year, it has been profitable and successful. It would be a shame to see American workers lose their jobs permanently because of temporary profitability problems with Exim programs. I sincerely hope you and the other directors will give strong consideration to making the medium-term program more competitive. It's time to stop giving our foreign competitors a financing advantage over American-made goods. It's time to put Americans back to work!

Very truly yours,

THE FRENCH OIL MILL MACHINERY COMPANY

E. A. Werling
Vice President - Finance

EAW/dlm

EXHIBIT "B"

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT AND CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

December 9, 1982

DEC 15 1982
ANSWERED

Mr. E. A. Werling
Vice President--Finance
The French Oil Mill Machinery Company
Piqua, Ohio 45356

Dear Evan:

Your letter of November 19 accurately describes the inconsistencies that have emerged from Eximbank's attempt to save medium-term U.S. exporters from the total elimination of subsidized export credit. I admit Eximbank's Medium-Term Credit Program and Small Manufacturers Credit Program offer less competitive financing than the Bank's long-term direct credits. However, the present character of these programs must be seen in the context of an environment of continuing budgetary restraint, so that a "modest" start was necessary to minimize the opposition to any new programs by entities inside and outside the government.

Since the prime alternative considered by others is no program, not a more competitive program, it is essential that we develop a base of data which indicates how successful or unsuccessful the programs are in meeting the competition. Only then can interagency consensus for substantive program changes be established. While the pain of patience may be great for you, I ask that you give us both time and an opportunity to support every potential sale you encounter. We need every particle of information the medium-term export community can generate regarding won and lost sales. You and I share the same ultimate goal of a "level playing field" for U.S. exporters, but we must be careful that we do not push our objective faster than feasible or build a bigger goal than is supportable. We do not want to win the battle and lose the war.

Given your experience in this area, I am sure you will be able to provide the Bank with many of the detailed pieces of information needed to develop the medium-term case. While any of us here at the Bank would be glad to receive your flow of data, perhaps it would be most efficient if you directed your input to one or two of Eximbank's staff with whom you are familiar. As I understand you have talked frequently with Art Pilzer of the Medium-Term Credit Program and Piper Starr of Policy Analysis, might I suggest that they be your focal point.

Sincerely,

William H. Draper III

Senator BOSCHWITZ. I would like to ask with your permission, Dr. Müller, if I could take a 10-minute recess. I have some constituents in my office who have been there for a couple of hours. We have other business problems in the northern part of our State that I want to address for a few minutes. So if we can recess until 11:30, I would appreciate it, and I hope the others in our audience will stay as well.

[Recess taken.]

Senator BOSCHWITZ. I am sorry that I tooks more than 10 minutes. I apologize, and I thank those of you who have been patient enough to wait.

Dr. Müller, Dr. Domike, and Mr. Moore, I am ready for you. Why don't you go right ahead. I am not in a hurry, so you need not summarize your testimony.

STATEMENT OF DR. RONALD E. MÜLLER, EXECUTIVE DIRECTOR, CENTER FOR INTERNATIONAL TECHNICAL COOPERATION, THE AMERICAN UNIVERSITY, WASHINGTON, D.C., ACCOMPANIED BY DR. ARTHUR DOMIKE, DEPUTY EXECUTIVE DIRECTOR, CITC; AND DAVID H. MOORE, SENIOR RESEARCH ASSOCIATE, CITC

Dr. MÜLLER. Senator, unfortunately I have another commitment that I have to attend. My colleagues, however, will stay here for whatever duration you would like questioning. I would like to take 10 minutes to give you a quick oral summary of the work that we have done.

We set out with a grant from the Economic Development Administration of the U.S. Department of Commerce to do a very large-scale analysis of the impacts—in terms of employment and future tax generation—that could result if the Government developed a small business export financing program. A major part of our work used large data bases available from the U.S. Bureau of the Census, as well as from the Small Business Administration. With these data bases, we performed a macroeconomic analysis and I will talk about some of those results. In addition, we did a special sample survey of over 300 small business exporters to address additional questions, some of which have to do with the design of a Government outreach program and why that has not taken place to date.

Let me start out by requesting, if I may, that the full study be entered into the record, if that is appropriate.

Senator BOSCHWITZ. You can give us several copies. We will attach it to the record so that we do not have to reproduce it.

Dr. MÜLLER. Let me begin with the first part of our work which demonstrated the need for small business export financing. What we found in the special survey of over 300 companies, of which we chose 240 as valid samples, was that during the period 1980 through 1982, when total U.S. manufacturing exports, declined in real terms by about 8 percent, for the small business exporting community there was a dramatic decline of almost 16 percent, almost double the decline being experienced by all manufacturing exports.

We also found from this special survey that the exporters felt that they had suffered at least a 50-percent decline in export sales

during the 1980–82 period because of inadequate financing. This was not just the financing in terms of the percentages you could offer to your buyer overseas, but also other important factors for small business, such as the financing of working capital needs and financing accounts receivable on the export side.

The survey and the full study also developed information that pointed to the key single problem blocking more small business exporting in this country. The problem points to the need for the design of delivery systems, such as an outreach program that addresses the problems we have been talking about here and that Eximbank has experienced and that other agencies of the U.S. Government have experienced. Even if there is available financing, we still have not developed in this country, as has become amply clear here this morning, an effective outreach program to deliver that export financing to the small business community.

Let me come now to a point that has not been raised today, which I believe is a very important point. What are the benefits to the U.S. economy, to the U.S. balance of trade——

Senator BOSCHWITZ. Before you reach that question, other than the finding that there is not effective outreach, did you also examine the possible solution to that?

Dr. MÜLLER. Yes; and I am going to come back to that in about the seventh minute of this. I am rushing because I have an appointment.

Let me tell you about the results, the impact in terms of employment, tax revenues, and cost to the Government of an export financing program. What is very important here is that we not only ask, What would be the impact, in terms of jobs created, if the Government had a $1 billion program for export financing, it is also important to ask, What is the impact if you chose to utilize that $1 billion for other kinds of conventional policies open to the Government to stimulate jobs and stimulate the economy.

So we compared our small business export financing program to a conventional across-the-board tax cut that could be done to stimulate the economy. We also compared it to a straight Government increase of $1 billion in expenditures, and in this case we used Defense procurement expenditures of $1 billion. And finally, we compared it by saying, if you chose not to put $1 billion into the stimulation of small business exports but the stimulation of all manufacturing exports, not discriminating between small and big business, what would the difference be. So let me talk a little bit about that part of the results.

We found that compared to any of the other three policy options that I mentioned, if you stimulated it with a $1 billion program of small business exports, you would get 14 percent more jobs than if you stimulated all manufacturing exports. You would get 12 percent more jobs than if you chose to spend your $1 billion through Defense procurement. And you would get 58 percent more jobs than if you chose to give the economy a $1 billion tax cut across the board.

A very important point about these employment results, in addition to the numbers, is the quality of that employment. The quality of that employment is high-level employment. It is skilled employment. Another aspect that we were able to test was, Where would

the job increase occur? They tend to occur both in those industries and the regions in the country that are suffering the greatest amount of unemployment.

Senator BOSCHWITZ. Why would that happen? How was your program structured to bring about that?

Dr. MÜLLER. The reason that happened is, No. 1, you are dealing with small business that tends to employ more workers per dollar of capitalized or asset value than large firms. They are more labor intensive than large business, for example. No 2, we are talking about the industrial sectors, such as machine tools, which have been heavily-hit by unemployment due to the general recession here and overseas. That is the general characteristic of small business. They are more labor intensive and particularly more labor intensive at the high-skill end. The location of those industries with the largest export increases tends to be in high-unemployment States and in industries that are already at high levels of unemployment.

The second major finding, in addition to the impacts on employment, is: What is it really going to cost the Government? We found that for the export guarantee loan program that we tested, they become self-financing within a period of about 12 months under a wide range of different sets of assumptions. We made very conservative assumptions, even more conservative than the Treasury and OMB used, in trying to evaluate the Eximbank's current programs. Even at the low end of the range of most conservative assumptions, we find that, within a period of 12 months, the increase in new tax revenues due to this export guarantee program stimulation for small business becomes greater than the $1 billion going into it and the program becomes self-financing.

So what we are talking about is that after 12 months, you begin to generate a surplus, based on the amount of tax money from taxpayers you might have expended in other ways versus the new tax revenue that you are generating, due to the increase in jobs, the increase in investment, and the other activities that go on when you generally expand that sector.

Senator BOSCHWITZ. May I interrupt you? In the process of talking about the program, you said it was a $1 billion program. But now you are talking about the loan guarantee program. Is this a $1 billion loan guarantee program as opposed to a $1 billion direct loan program?

Dr. MÜLLER. What I am talking about is an export guarantee program.

Senator BOSCHWITZ. Directed at small business?

Dr. MÜLLER. Yes.

Senator BOSCHWITZ. Implemented or administered by Eximbank?

Dr. MÜLLER. I am going to come back to that in just a moment.

The form of the program here is an export guarantee program for working capital and for accounts receivable. There is a significant problem in export financing. We have talked today only about the demand side, where the buyer is. Now we are talking about the supply side, working capital and accounts receivable, with the suppliers.

Senator BOSCHWITZ. Accounts receivable being export accounts?

Dr. MÜLLER. Yes. Obviously, that figures into the total financing cost that the seller can offer to the overseas buyer.

In light of these results, I think we should remind ourselves of the overall importance of exports in this country and the role of small business in it. I think we tend too easily to forget that today one out of ever seven jobs in the United States is due to the export sector. We should also remind ourselves that since 1970, in every recession that we have experienced, in order to get a recovery going we had the leading sector occur in housing while the export sector was the second most important leading sector.

Since 1970, when the automotive sector became less dominant, exports became the second leading sector of the economy. If you do not have a resurgence of exports, you are going to have a very difficult time getting any type of recovery started and sustained.

Finally, we also know, based on prior work we have done and work other people have done, that during the 1974–75 recession, which was the worst we had had until this one since the end of World War II, you may recall that unemployment in that period, 1974 to 1975, went up to 9 percent. If we had not had strong export demand during that period, unemployment would have exceeded 11 percent. The role of exports in the economy is significant, and it has changed dramatically over the past 10 years to become a key sector of this economy for the purposes of trying to regain higher levels of employment nationwide and an overall recovery.

Let us talk about the importance of small business in overall manufactured exports. Here we know very little. Probably we are talking at least that 16, 20, or 21 percent of total manufacturing exports are now being accounted for by small business firms. The figure we heard this morning of 3 percent of all exports—if you define small business as 100 employees or less—is probably somewhat misleading. If you define small business as 250 employees or less, as we are here, we believe that to be at least 16 percent or maybe even more.

There is also reason to suspect, although no one has been able yet to generate the data, that over the past 6 or 7 years the small business percentage of all manufactured exports has become increasingly important. You can guess some of the reasons why. Our future markets in this country increasingly are in such areas as high-tech and high-quality products. We tend to know that our small businesses, particularly the dynamic ones, are much more productive and their rates of productivity growth are much higher than large businesses. Given the changing nature of competition, the new importance of the Third World, the new importance of high-tech and high-quality products, small business is probably becoming an increasingly important part of all manufactured exports.

I just came back, interestingly enough, from 2 days with the Inc. 500.

Senator BOSCHWITZ. Which 500?

Dr. MÜLLER. The Inc. 500, from Inc. magazine. They are the 500 fastest growing privately held small business companies in the Nation. They have had higher growth rates than anyone else over the past 5 years. The conference was sponsored by the State of Kentucky and by Inc. magazine. The companies ranged in size from

$2.5 million in sales up to $100 million per year. Their range of employees was anywhere from 5 employees up to a little less than 500. Indeed, we were talking with the "creme de la creme," the most successful small businesses in the country.

We found out, spending 2 days with these people, that the stories you have heard today are not the stories of one company. They are the stories of many companies. These 500, time and time again, talked about losses on the export sales side of 50 percent or more—which is what we found in our sample of a different 300 companies that I mentioned before, and what you were hearing from Mr. Werling today—that there was real truth in that. That is actually what is happening. It is the financing side of the export picture, in our most dynamic growth portion of our exports, where we are not being competitive and where something has to be done and particularly for small business.

That is why I started out my comments by saying, during the period 1980 to 1982, when all manufactured exports declined in real value by 8 percent, for small business exporters they declined about about 16 percent or roughly double.

Let me conclude with a few remarks about the question of the delivery of export financing that we have been discussing today. It is a question we spent 2 days talking about with these 500 most dynamic small business companies in Lexington. We were talking about small business financing and small business export financing. There are two points to make here.

The first is the design of an outreach program. I, myself, do not feel that it is very difficult. I feel there are alternative mechanisms open for executing an effective delivery system of small business export financing down to the small business enterprise. Any combination of Eximbank, the utilization of individual State governments' own export financing programs, and from such States as Wisconsin and others, we can learn a lot about the delivery of small business export financing. We can also team up with the States.

There is also the point that Mr. Draper mentioned, with which I agree, teaming up with the U.S. and Foreign Commercial Service of the Department of Commerce. It is a very dynamic group of 300 people out there in the field, many of them former small business people themselves, mandated to deal with the small business exports, and a combination of Eximbank and the U.S. and Foreign Commercial Service, from my particular personal point of view, is quite feasible.

Through that link, there is more effective work, as some of the States have seen, that can be done with commercial banks. There are only 300 commercial banks in this country currently participating in the Exim program, out of a total of between 14,000 and 15,000. On the one hand, it can be said it is a problem. On the other hand, we can say that it is an opportunity there. The real problem is not the design of the program. The real problem is that no one here in Washington has yet been given explicitly the responsibility, no one has been given a mandate to design and execute and implement an effective delivery system for small business export financing.

I, myself, was a special adviser to the Secretary and Under Secretary of Commerce in the former administration for the first 2 years. We dealt with this problem. We saw lots of good intentions, just like in the current administration. People are sincerely interested in small business. The more literate people in Government, on both sides of the aisle, are aware of the fact that small business is an extremely important segment now and one of the most dynamic portions of our economy, including exports. If they are neglected, I think Werling's conclusions are quite appropriate as to what is going to happen in the future. We cannot afford to neglect it.

But we have failed to mandate and put the responsibility explicitly on one agency of the Government or another to deal with small business export financing. In my own opinion, not until we explicitly, through the Congress—you asked this morning, Senator, What can we here in Congress do to help the small business export financing problem, and I think from my personal point of view as an observer and an analyst of this question, someone is going to have to mandate that a single agency is given that responsibility. Once that is done, then it will become a priority item, and the different agencies needed for implementing the program fall into place.

Those are more or less the summary findings that we have out of our work today.

Senator BOSCHWITZ. Thank you very much. Your statement was very clear, and I will review your report. In your report, do you deal with this particular item that you concluded on?

Dr. MÜLLER. No, we did not. That is a recommendation from us as a group of individual analysts who worked on it. What we do deal with in the report is, we give implications at the end, in the concluding chapter, about some of the ways an outreach program can work. We did not make the recommendation in that Government report that Congress should mandate this. But I, as an individual, with my colleagues, that is our professional recommendation to you.

Senator BOSCHWITZ. You are a professor at GW?

Dr. MÜLLER. No. We are in charge of the Center for International Technical Cooperation at the American University. George Washington did the case studies that you heard about this morning, and we did the large mathematical based studies that you heard about that I just summarized, plus the work in the special sample survey. We also do a lot of work in the whole area of what we call development finance and investment finance, particularly for small business, the export problems that small business has in financing as well as their domestic problems in small business financing.

Senator BOSCHWITZ. Mr. Moore and Dr. Domike, you are all associated together. Dr. Domike, do you then want to expand at all on what Dr. Müller has said?

Dr. DOMIKE. No, I think our basic conclusions are well covered. Dr. Müller has had recent experience in laying out these in 10-minute portions. He has had more experience than I in talking to the point.

Senator BOSCHWITZ. He is a professor and I am a politician. He took 20 minutes.

Dr. DOMIKE. I would defer, actually, to David Moore as he may have some comments. David was largely in charge of the mathematical analysis. He may have some specifics he feels were slighted.

Mr. MOORE. No, I have nothing to add.

Senator BOSCHWITZ. If there are no more comments, we will conclude the hearing. We thank you for coming, and we thank you for being patient this morning and waiting.

[Whereupon, at 12:20 p.m., the hearing adjourned, to reconvene at the call of the Chair.]

[The prepared statement of Dr. Müller follows:]

Statement of Dr. Arthur Domike, Mr. David Moore and Dr. Ronald Müller
Before the Subcommittee on Export Promotion and
Market Development of the Committee on
Small Business
April 7, 1983

We recently completed a study for the Economic Development Administration of the U.S. Department of Commerce of the macro-economic impacts of promoting small business manufactured exports through improved export financing. The results of the study provide estimates of the likely export, GNP, employment, and tax revenue benefits of this type of export promotion. The study does not address the question of the small business and the U.S. Export-Import Bank (EXIMBANK) charter per se. However, the results of the study and our ongoing work are pertinent to the charter question in three ways:

- first, the study demonstrates a need for policies to improve export financing for small business, and the potential benefits to the larger economy of such policies.
- second, the study and our ongoing research show that the delivery of export financing (or any other promotion activity) is the key to assuring that small business is able to respond.

- third, both the small business need and the potential benefits to the economy provide a case to support an EXIMBANK small business set aside in guarantee and direct loan programs.

With regard to this second point, we are currently examining ways to assist the EXIMBANK to reach small business with existing and new export financing programs. Among the institutions that could provide EXIMBANK with improved outreach are commercial banks, state level export financing programs, the U.S. and Foreign Commercial Service of the Department of Commerce, and the Small Business Administration.

With regard to the last point, establishing small business set asides within EXIMBANK programs, the question arises of defining a small business. Here an approach worthy of consideration is to eschew traditional definitions of small business such as employment size, total sales or net worth, and focus upon annual export sales and the size of individual transactions. For example, set asides might be restricted to firms with annual export sales of less than five million dollars and be used for only those transactions smaller than one million dollars. The simplicity of this type of eligibility criteria, and the concept of the set aside itself, should facilitate Congressional oversight of the EXIMBANK role in allowing U.S. small business exporters to be competitive.

Since 1980 the U.S. export sector has suffered an unusually long and deep decline. A combination of interrelated reasons explain this decline: prolonged recessions in virtually all the world economies, historically high U.S. interest rates, a strong dollar, and increasingly subsidized foreign competitors.

Reversing this decline is a priority policy objective at both federal and state levels, because exports have become an increasingly important sector of the U.S. economy during the 1970s. For example, one out of every seven jobs in the United States is now derived from export sales. In the 1974-75 recession, unemployment reached 9%, but would have been 11% had it not been for the strength of export sales. Since 1970, exports have been among the key sectors leading each recovery.

During the current decline in overall exports, structural changes in domestic financial markets have combined with intensified foreign subsidized competition to affect adversely and differentially U.S. small business exporters. For example, a survey of 240 small business exporters shows they have suffered an absolute decline of over 15% in real exports between 1980 and 1982 even while overall U.S. exports are estimated to have declined by only 8% over the same period. According to these respondents, better financing alone could have improved their export performance by over 50 percent.

This report evaluates the impacts of selected policies intended to improve the financing conditions available to small business exporters. The report then compares the impacts of small business export policies with those that result from other conventional policy options including an across-the-board general tax cut, a general increase in defense purchases and an across-the-board general export stimulus. The comparison of these different policies is based on their respective abilities to increase GNP, employment and tax revenues. The methodology developed to provide these estimates successfully distinguishes these effects at the national and state levels while taking into account a wide range of additionality assumptions. These analyses were performed for the entire U.S. manufacturing sector including its small business sub-sector.

A fundamental conclusion of the study is that export credit policies can be an effective tool to increase small business exports. Furthermore, specific program options can be structured so that they are self-financing. That is, estimated new tax revenues equal estimated expenditures within a 12 to 18 month period. Beyond that period, a continuing program would generate a surplus of tax revenues over expenditures. Because these programsare directed at small business exporters, they are, relative to other policy alternatives, cost effective generators of high quality private sector employment in precisely those sectors currently beset by high unemployment.

Four specific types of policies for improving small business export financing are considered:

1. **Export Receivables Financing.** A program to provide market rate loans to small business exporters to cover a significant portion of their export receivables.

2. **Pre-Export Working Capital Financing.** A program to provide market rate loans to small business exporters requiring working capital to procure inputs necessary to produce goods or services for export.

3. **Interest Rate Equalization.** A program to provide subsidized financing to U.S. exporters equal to that provided to foreign competitors.

4. **Loans to Foreign Buyers.** A program offering market rate financing to the buyers of U.S. exports to compensate for unusually tight credit conditions.

Among the specific results of the study are the following:

- Small business export stimulation is a relatively strong generator of high quality private sector employment. Per billion dollars of injection, we estimate that within 18 months small business manufactured exports account for 12% moreemployment years than defense procurement, 14% more than all manufactured exports and 58% more than a tax cut (2/3 personal, 1/3 corporate).

- Despite large differences in policy structure, expenditure levels and economic impact, any of the export credit options considered in this study would be self-financing. This is true at even a low range (20% to 45%) of "additionality;" that is, 45% of the exports covered would not have occured without the program.

- The export receivables financing and pre-export working capital loan guarantee policies are more cost effective relative to the interest rate equalization policy.

The implications for U.S. policy to revitalize the small business export sector are twofold:

Priority attention should be given to a loan guarantee program combining export receivables and pre-export working capital, with strict participation criteria to guarantee high additionality. This program could be self-financing and would be initially funded by the federal government or a mixed federal/state funding formula with states providing some portion of budget authority.

Consideration should also be given to a stand-by interest equalization program (IRE) to be triggered when foreign government intervention in international markets reaches a certain level. The stand-by IRE fund would also be made self-financing after receiving initial start-up funds from the federal government.

This dual policy approach has several important benefits.

1. The approach most benefits "high performance" firms, which have good potential for exporting but are limited by current exporting bottlenecks.

2. The program is self-financing.

3. Rigorous and credible additionality criteria can be used as safeguards to insure high new export impacts. For example, only new market or new to export firms could be eligible.

Specifically, with reference to an export receivables and pre-export working capital loan guarantee program, we estimateafter 18 months a one billion dollar program would:

- o Generate new exports of $0.88 to $2.63 billion.
- o Generate additional GNP of $1.5 to $4.47 billion.
- o Generate 46,500 to 133,800 person years of employment.
- o Generate new federal revenues of $0.37 to $1.13 billion.
- o Generate new state and local revenues $0.15 to $0.45 billion.
- o Be self-financing if only 20% of the exports covered would not have occured without the program.

Concerning a one billion dollar interest rate equalization program, our comparable estimates are:

- New exports of $2.2 to $6.7 billion.
- Additional GNP of $3.8 to 11.5 billion.
- 115,000 to 345,000 person years of employment.
- New federal revenues of $0.9 to $2.9 billion.
- New state and local revenues of $0.49 to $1.1 billion.
- An additionality level of 45% to be self-financing.

Finally, the study demonstrates that the reorganized and expanded U.S. and Foreign Commercial Service of the Department of Commerce provides a unique infrastructure for "testing" policies. This makes feasible the low cost development of data bases allowing the determination of the effectiveness of policy options for export competitiveness, job stimulation, technical assistance and other objectives. In combination with the methodology used in the report, this infrastructure would permit policy makers to compare the cost and effectiveness of alternative policy options in terms of their macroeconomic impacts at both the national and state levels.

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Dr. Müller is Professor of Economics and International Finance at The American University. He has served as Special Advisor to the President and the Foreign Minister of Venezuela, and to the Finance Minister of Saudi Arabia on negotiations strategy and strategic planning vis-a-vis multinational enterprises in energy and finance. His corporate clients have included IBM, Questor, Combustion Engineering, Grupo VISA, Ashland Oil, and Grupo Alfa. Dr. Müller is the author of over 50 scholarly articles and monographs. His latest book, Revitalizing America, was nominated for the Robert F.Kennedy Award. His best seller, co-authored with Richard Barnet, Global Reach: The Power of the Multinational Corporations, won the 1975 Sydney Hillman Foundation "Book of the Year Award" and has been published in six languages.

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Before joining CITC, Dr. Domike spent seventeen years as director of research and of investment project teams with United Nations agencies. During that period, he was in close and continuing contact with business, government and academic leaders in Latin America, the United States and Europe. He has lived and worked in Argentina, Chile, Mexico and Europe, and specialized in industrial and agricultural development, with particular emphasis on multinational firms and agro-industry. Before joining the United Nations, he held academic appointments in several major universities in the United States. His professional publications include more than 30 books, monographs and articles in the fields of agricultural policy, employment, finance and industrial development.

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THE AMERICAN UNIVERSITY
WASHINGTON, D.C.

EXPORT FINANCING FOR SMALL BUSINESS

For

TECHNICAL ASSISTANCE PROJECT
ECONOMIC DEVELOPMENT ADMINISTRATION · U.S. DEPARTMENT OF COMMERCE
TAP

March 15, 1983

Submitted By:

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Submitted To:

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EXECUTIVE SUMMARY

Since 1980 the U.S. export sector has suffered an unusually long and deep decline. A combination of interrelated reasons explain this decline: prolonged recessions in virtually all the world economies, historically high U.S. interest rates, a strong dollar, and increasingly subsidized foreign competitors.

Reversing this decline is a priority policy objective at both federal and state levels, because exports have become an increasingly important sector of the U.S. economy during the 1970s. For example, one out of every seven jobs in the United States is now derived from export sales. In the 1974-75 recession, unemployment reached 9%, but would have been 11% had it not been for the strength of export sales. Since 1970, exports have been among the key sectors leading each recovery.

During the current decline in overall exports, structural changes in domestic financial markets have combined with intensified foreign subsidized competition to affect adversely and differentially U.S. small business exporters. For example, a survey of 240 small business exporters shows they have suffered an absolute decline of over 15% in real exports between 1980 and 1982 even while overall U.S. exports are estimated to have

declined by only 8% over the same period. According to these respondents, better financing alone could have improved their export performance by over 50 percent.

This report evaluates the impacts of selected policies intended to improve the financing conditions available to small business exporters. The report then compares the impacts of small business export policies with those that result from other conventional policy options including an across-the-board general tax cut, an general increase in defense purchases and an across-the-board general export stimulus. The comparison of these different policies is based on their respective abilities to increase in GNP, employment and tax revenues. The methodology developed to provide these estimates successfully distinguishes these effects at the national and state levels while taking into account a wide range of additionality assumptions. These analyses were performed for the entire U.S. manufacturing sector including its small business sub-sector.

A fundamental conclusion of the study is that export credit policies can be an effective tool to increase small business exports. Furthermore, specific program options can be structured so that they are self financing. That is, estimated new tax revenues equal estimated expenditures within a 12 to 18 month period. Beyond that period, a continuing program would generate a surplus of tax revenues over expenditures. Because these programs are directed at small business exporters they

are, relative to other policy alternatives, cost effective generators of high quality private sector employment in precisely those sectors currently beset by high unemployment.

Four specific types of policies for improving small business export financing are considered:

1. **Export Receivables Financing.** A program to provide market rate loans to small business exporters to cover a significant portion of their export receivables.

2. **Pre-Export Working Capital Financing.** A program to provide market rate loans to small business exporters requiring working capital to procure inputs necessary to produce goods or services for export.

3. **Interest Rate Equalization.** A program to provide subsidized financing to U.S. exporters equal to that provided to foreign competitors.

4. **Loans to Foreign Buyers.** A program offering market rate financing to the buyers of U.S. exports to compensate for unusually tight credit conditions.

Among the specific results of the study are the following:

- Small business export stimulation is a relatively strong generator of high quality private sector employment. Per billion dollars of injection, we estimate that within 18 months small business manufactured export account for 12% more employment years than defense procurement, 14% more than all manufactured exports and 58% more than a tax cut (2/3 personal, 1/3 corporate).

- Despite large differences in policy structure, expenditure levels and economic impact, any of the export credit options considered in this study would be self financing. This is true at even a low range (20% to 45%) of "additionality;" that is, 45% of the exports covered would not have occured without the program.

- The export receivables financing and pre-export working capital loan guarantee policies are more cost effective relative to the interest rate equalization policy.

The implications for U.S. policy to revitalize the small business export sector are twofold:

Priority attention should be given to a loan guarantee program combining export receivables and pre-export working capital, with strict participation criteria to guarantee high additionality. This program could be self-financing and would be initially funded by the federal government or a mixed federal/state funding formula with states providing some portion of budget authority.

Consideration should also be given to a stand-by interest equalization program (IRE) to be triggered when foreign government intervention in international markets reaches a certain level. The stand-by IRE fund would also be made self-financing after receiving initial start-up funds from the federal government.

This dual policy approach has several important benefits.

1. The approach most benefits "high performance" firms, which have good potential for exporting but are limited by current exporting bottlenecks.

2. The program is self-financing.

3. Rigorous and credible additionality criteria can be used as safeguards to insure high new export impacts. For example, only new market or new to export firms could be eligible.

Specifically, with reference to an export receivables and pre-export working capital loan guarantee program we estimate after 18 months a one billion dollar program would:

- Generate new exports of $0.88 to $2.63 billion.
- Generate additional GNP of $1.5 to $4.47 billion.
- Generate 46,500 to 133,800 person years of employment.
- Generate new federal revenues of $0.37 to $1.13 billion.
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- Be self financing if only 20% of the exports covered would not have occured without the program.

Concerning a one billion dollar interest rate equalization program, our comparable estimates are:

- New exports of $2.2 to $6.7 billion.
- Additional GNP of $3.8 to 11.5 billion.

- 115,000 to 345,000 person years of employment.
- New federal revenues of $0.9 to $2.9 billion.
- New state and local revenues of $0.49 to $1.1 billion.
- An additionality level of 45% to be self financing.

Finally, the study demonstrates that the reorganized and expanded U.S. and Foreign Commercial Service of the Department of Commerce provides a unique infrastructure for "testing" policies. This makes feasible the low cost development of data bases allowing the determination of the effectiveness of policy options for export competitiveness, job stimulation, technical assistance and other objectives. In combination with the methodology used in the report, this infrastructure would permit policy makers to compare the cost and effectiveness of alternative policy options in terms of their macroeconomic impacts at both the national and state levels.

CHAPTER 1

Introduction

The major purposes of this study are:

- To develop a methodology which will allow the U.S. Department of Commerce (U.S. DOC) to assess the economic impact of proposed policies to provide export financing to small business.[1]

- To apply the methodology to selected policies and evaluate their economic impact on income, employment, and tax revenues.

- To evaluate institutional options to deliver the financing to assist small business exporters.

- To apply the methodology to two of the proposed prototype small business export financing programs at the state level.

The remainder of the report is divided into six chapters. Chapter 2 presents the financial problems affecting small

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[1]Throughout this report small business refers to enterprises employing less than 250 people.

business exporters including the results of over 300 telephone interviews with small business exporters undertaken during December 1982. Chapter 3 presents the study methodology. Chapter 4 provides a description of the policies to be evaluated. Chapter 5 presents estimates of the likely macroeconomic impacts of the policies and compares them with the likely impacts of a general tax cut, a change in defense purchases and an across the board increase in export demand. In Chapter 6, our methodology is applied to two typical state level policy proposals which seek to provide financial support to small business exporters. Chapter 7 presents the policy implications of the study.

CHAPTER 2

2.1 THE CURRENT STATE OF SMALL BUSINESS EXPORTS: THE ROLE OF FINANCE AND PUBLIC POLICY RATIONALE

No reliable data on small business exports exist. As a starting point, however, it may be reasonably estimated that small business accounts for about 16% of manufactured exports, as an upper limit.[1] In order to get a picture of the current state of small business and the role of financing in that sector, telephone interviews (gti) were undertaken with over 300 small business firms as part of this study.

The overall picture was not encouraging. Some 240 of the gti responses were sufficiently detailed to be used in the analysis. The most startling result was that the firms had suffered a large overall decline in the nominal value of exports from 1980 to 1982. For the whole economy, non-agricultural exports are estimated to have declined by 8% from 1980 to 1982. Over this same period, the small businesses included in the gti experienced a real sales loss of over 15%. Important reasons for this performance were credit and finance difficulties, and the

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[1] Some regional survey studies have estimates as high as 25%. The 16% figure however, is not the product of a survey, but a rough estimate derived from secondary data and the assumption that small businesses account for the same precentage of industry exports as they do for total sales.

publicly subsidized financing offered by markets. The gti respondents claimed an annual loss of sales due to finance-related causes averaging around $2.5 million per firm for 1980, 1981, and 1982.

Some observers might write off these estimates by interested parties as excessive whimpering of inefficient producers who are receiving their just desserts in the tight market of a recession bound world economy. Were this the case there would not exist sufficient grounds for the public policy initiative considered in this study. Rather, public policy intervention is worth examination because economic forces greater than the efficiency or inefficiency of a particular producer are the root causes of the decline in small business export sales. Three elements in particular are relevant:

- The unintended consequences of macroeconomic policy;
- Dramatic structural changes in domestic financial markets; and,
- Support provided by foreign governments to the competitors of U.S. small business exporters.

2.2 MACROECONOMIC POLICY: UNINTENDED CONSEQUENCES FOR SMALL BUSINESS EXPORTERS

Recent macroeconomic policy and practice has left small business exporters doubly disadvantaged. Monetary policy has been strongly employed as a counter-cyclical tool of macroeconomic policy to combate inflation. High interest rates have persisted during both the peak and the trough of the business cycle. This results in a domestic credit squeeze and a high foreign exchange value of the dollar. Tight credit and a strong dollar have large adverse impacts on small business exporters relative both to larger U.S. firms and to firms of all sizes producing exclusively for the domestic U.S. market. In effect, disequilibrium conditions fostered by macroeconomic policy have created a situation in which otherwise efficient producers are being driven from the market.

Since 1979, monetary policy has become the principal policy instrument used by federal policy makers to stimulate and destimulate the economy. Fiscal policy has, at a minimum, been rendered far less useful as a control lever because of the large "structural" federal budget deficit. As a consequence, interest rates reached historic highs from 1979 to 1982 and were used to destimulate the economy and reduce inflation. Similarly, after the 1982 tax cut proved ineffective in stimulating demand, monetary policy was again used, this time to stimulate the economy, as the Federal Reserve exerted downward pressure on

short-term interest rates. Even so, it is likely that in the future, today's interest rates will be seen as high relative to those obtaining in other post-war business cycles.

What has been the consequence, even if unintended, of this series of events for small business exporters? One result is the decline in exports, as reported by our sample of small business exporters. These firms recognized that the high value of the dollar is a direct consequence of the policy to check inflation through high interest rates. Their perception is that the strong dollar is the major factor placing all U.S. exporters at a disadvantage, relative both to firms dependent on the domestic market only, and to foreign competitors.

The negative consequences for small business exporters of recent macroeconomic policy trends are not limited to foreign markets. Independent surveys show that since 1979 interest rates and financing have rapidly become the most important problem perceived by small business. This issue was cited as the number one problem of small businesses from mid-1981 through 1982.[2] A survey of all businesses certainly would reach the same conclusion; however, the force of high interest rates and difficult credit terms weigh more heavily upon small businesses than they do upon large businesses. Small firms in a period of credit

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[2]Quarterly Economic Report for Small Business of the National Federal of Independent Business Survey of Small Businesses, various issues.

rationing simply lack the asset base to weather the storm and are not as attractive to lenders as their larger corporate brethren, and thus pay a premium to borrow. While it is not definitive evidence of this phenomenon, the proportion of short term bank loans of less than $500,000 to total bank credits decreased from about 40 percent in May of 1980 to less than 20 percent in late 1981. This is at least indicative that small firms have a credit problem.[3]

There is ample reason to suspect that the experience during the 1979 - 1983 business cycle will be typical of future business cycles. The federal deficit is likely to remain large, limiting the ability of government to use fiscal policy to destimulate the economy as we come out of recession, or to restimulate on the downside. The outlook is for more reliance upon monetary policy and thus, unfortunately, for small business exporters to continue to suffer the unintended consequences of macroeconomic policy.[4]

2.3 STRUCTURAL CHANGE IN CREDIT MARKETS

Compounding the impact of macroeconomic policy on small business exporters are ongoing structural changes in U.S. financial

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[3]U.S. Small Business Administration, The State of Small Business: A Report to the President; GPO, Washington, 1982, pp. 121.

[4]Ronald E. Müller and David Moore, "America's Blind Spot: Industrial Policy," Challege, Vol 24, No. 6, January/February 1982, pp. 5-13.

markets. The traditional regional and local bank suppliers of credit to small business exporters are also changing their risk perception regarding international lending. The ongoing deregulation of the U.S. financial sector is one aspect of a process by which the U.S. economy has been transforming itself since the late 1960s. For the small business exporter the result of these changes is significantly reduced access to capital. The widely publicized developments in the Third World debt may have a similar impact. At least in the short run, fears of default and financial disaster may dry up traditional sources of credit to domestic small business exporters.

The transformation of the economy was most apparent in the transnationalization of U.S. corporations and banks during the 1960s. In our view, the macroeconomic policy situation described in the preceding section is another significant aspect of this process. In the financial sector, traditional markets have broken down, with the largest investment banks, commercial banks, real estate brokerages, savings and loan associations, and stock and bond brokerages all becoming financial service conglomerates through both internal growth and merger. The market for these financial service conglomerates is international rather than only regional or nationwide. This means that credit access for the small exporter is reduced, as traditional credit supply institutions pursue this broader market.

It is at this point that deregulation affects the small business exporter by increasing the cost of funds to financial intermediaries. The advent of the financial services conglomerate has been accompanied by intense competition for the savings of individuals. Rates offered to savers have increased, with financial institutions seeking larger returns within shorter turnaround times. In the extreme, lending to small business exporters is not as profitable as placing funds in domestic money markets or Eurodollar syndicates.

Structural change in the domestic credit market has thus affected the small business exporter on both the supply and demand sides of the market. Regional and locally-based lenders -- as they have become or been absorbed by financial services conglomerates -- are confronted with a broader market for their credit. At the same time, the cost of funds to the regional or local institutions is increasing, forcing them to reevaluate their traditional portfolio. The small business is, in many cases, a less attractive customer in the wider market, especially where money supply conditions require lenders to get larger and quicker returns.

Multibillion dollar loans to Mexico or Brazil by international syndicates composed of the largest banks are very different from loans to small business exporter (or their customers) to finance merchandise export transactions. However the tremors in the

foreign credit markets could well be felt in the U.S. credit market from which small business exporters secure their funds. Recent negotiations with Mexico and Brazil already are having an effect on both large banks and smaller institutions Large banks have had no choice but to reschedule their debtors. Small banks, suffering their first adventure in international risk, have often taken a less flexible position, with some insisting on scheduled payment or default. In any case, it is reasonable to hypothesize that some or even many financial institutions providing credit to small business exporters may back off any international lending altogether, because they perceive the environment as too risky.

2.4 SUBSIDIES OF EXPORT CREDITS

All industrial countries, and most developing ones as well, provide some form of subsidized credit facilities to their export industries. The industrial trading partners of the United States are aware of the market dislocation caused by these arrangements. They have negotiated numerous agreements and treaties through which they seek to limit aggressive export competition through provision of credits to exporters. The general character of these pacts is illustrated by the 1969 Understanding on Export Credit for Ships - which was a beginning point for more extensive agreements among the major export countries. This agreement covers: interest rate minimum (6 percent); repayment terms maximum (generally 8 years); minimum

cash payment terms (20 percent); and restrictions on use of other credit and promotional aids. The major international institution overseeing and lobbying for rational export credit procedures is the "Berne Union," as the International Union of Credit and Investment Insurers is known.

Negotiations among the OECD countries to limit export credit subsidies became particularly intense after 1974. The results are in some ways impressive. An "Arrangement" was agreed upon in 1978 which establishes the basic terms for export credits and provides for prior notification if one of the signatories decides to go outside the rules. Maximum terms for credits and minimum interest rates are fixed under the so-called Uniform Moving Matrix (UMM). (See Table 2.1 for the levels prevailing since May 10, 1982.)

A history of the complex negotiations of the "Arrangement" and the ways in which competition continues cannot be repeated here.[5] The results of many years of intense discussions and solemn agreements, however, have certainly not had unmixed results. "Export credits appear more and more like a runaway horse which the industrial nations are willing to ride wherever it takes them," is one scholar's judgement.[6]

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[5]See, however, John M. Duff, Jr., "The Outlook for Official Export Credits", Law and Public Policy in International Business, (Vol. 13, No. 4, 1981) pp. 891-959.

[6]Op. Cit., page 953.

TABLE 2.1

Minimum Interest Rates Chargeable Under the Arrangement On Guidelines for Officially Supported Export Credits May, 1982

Country Classification	Years for Repayment 2 to 5 years	5 to 8 years	8.5 to 10 years
Relatively Rich	12.15	12.40	*
Intermediate	11.00	11.60	*
Relatively Poor	10.00	10.00	10.0

*Not Applicable

Source: OECD Observer (May, 1982).

Strains on the UMK arrangement have been great. The higher market interest rates prevailing in the late 1970s, and the wide dispersion in basic interest rate levels among the industrial countries created continuing competitive pressures, particularly for the U.S. where interest rates were often higher than in other major export countries. For 1980, an OECD study estimates that the export credit war cost OECD countries $5.5. billion.[7]

Between 1976, when basic interest rate and repayment period agreements were agreed upon and 1982, long-term U.S. government

[7]Orit Frenkel, and Claude Fontheim, "Export Credits; On International and Domestic Legal Analysis," Law and Public Policy in International Business (Vol. 13, No. 4, 1981, pp. 1071.

bond rates rose from 7.6% to 13%, French bonds went from 9.5% to over 14%, FRG government securities from about 8% to over 10%, and Japanese bonds ranged from 6.5 to 9%. Over the same period, U.K. bonds were steady at an already high 14%. Increases in nominal interest rates meant that credit subsidies, to stay "competitive", rose markedly, particularly for the U.S. and France. This particularly benefited the Japanese, since they had relatively lower subsidy requirements under the arrangement.

The OECD Export Credit group became particularly attentive to the interest spread and dispersion problem after October 1979 when U.S. interest rates began their most rapid uphill climb. Consensus was reached in July 1980 to raise te "Uniform Moving Natrix" of minimum interest rates from the range of 7.25-8.00% agreed to in 1978 to a range of 7.50-8.75%. In October 1981, the OECD group again raised the rate matrix.

It was only in 1982, however, after strong U.S. pressure, that the OECD countries agreed to the rates indicated in Table 2.1, which now approximate market rates for credits to richer countries. The 1982 meetings made the following changes in the matrix and classification criteria:

- Interest rate minima for the rich and intermediate countries were raised to the range of 11.0% - 12.4%,

but rates for IDA eligible (poor) countries were left at 10.0 percent.

- Only IDA eligible countries were given poor country status, and all countries with 1979 GDP/capita of $4,000 or more were classed as rich.

- Yen interest rates were allowed to be lower but had to be at least 0.3 percent above the long-term Yen prime rate (then at 8.7 percent).

These formally, agreed upon rates, maturities and conditions tend to disguise a variety of ways which the countries can otherwise subsidize financial terms, and thus place U.S. small business exporters at a disadvantage. In addition, remedies for failure to follow the rules are limited to consultation and (formally, at least) the opportunity to match the offer if another signatory so choses.

Another institutional factor affecting export credit competition arises from stale ownership of export enterprises in many of the major industrial competitors of the U.S. The U.S. is the only major country without government owned or directly subsidized firms in the principal export lines and/or a major trade intermediaries. State owned corporations, even though they may not show explicit trade subsidies on their books, typically are insulated from the market in a number of ways, e.g., as favored recipients of government contracts, or through special treatment on taxes. These types of support serve the equivalent function of subsidies.

CHAPTER 3

METHODOLOGY

3.1 OVERVIEW

The methodology to estimate the macroeconomic impacts of credit policies to aid small business exporters is designed to serve general purposes, as well as those specific to this study. It is able to incorporate a variety of considerations -- economy-wide, industry distribution, state distribution, and institutional variations -- as they pertain to the income, employment and tax effects of the policies considered.

The fullest application of this methodology in the present report is limited by cost considerations and data availability. Disaggregation by industry is limited to the two digit SIC code level. We limit estimates of state level distribution to the direct, not the indirect, effects. Institutional questions focus on expected additionality, but are not as detailed as would be possible with additional resources. From the methodological perspective, however, the design permits appropriate analysis at the chosen level of aggregation.

The methodology is best described in three steps, paralleling the three problems the study is called upon to solve. First, there is the estimation of first-round direct effects of the selected policies, that is direct changes in export sales,

employment and tax revenues resulting from the policies to encourage small business exports. These changes are sometimes called "direct" because they only include sales, employment and taxes created in the final stage of production. Not included are the employment and tax effects on input or indirect suppliers or the income, employment and tax effects induced by subsequents rounds of spending. A major issue where direct first round effects are concerned is the "additionality" problem. Experience indicates that gross exports financed by credit programs of the sort considered here, are greater than the "net exports" generated by these policies. This study follows the precedent of similar earlier studies: we will use a range of additionality coefficients, but at the same time suggest institutional mechanisms to encourage broad participation by client firms and, at the same time, assure additionality.

The second major problem which the methodology needs to resolve concerns the indirect and induced, or multiplier, effects of the direct first round change in exports. The value of final direct export sales includes the value of the inputs at each state of production. Thus, the sales value of indirect exports is accounted for in the final value of the good. The indirect employment and tax revenue effects are also included in the value of final export sales, but require a separate estimation procedure outlined in Chapter 5. In the formal specification of the methodology which follows, both direct and indirect effects

are included in the first round effects (equations 1 to 7). Multiplier or induced effects occur after the initial export effect and are the consequence of the increased spending of owners and workers following the initial increase in income. These effects occur over time -- assumed here to be over an 18 month period -- and are smaller than the initial effects because a portion of first round direct changes in income is saved rather than consumed. These effects are the second round effects as specified in the formal methodology.

The third problem confronted by the methodology is that of disaggregation. From the D.O.C. point of view, industry and state level disaggregation is imperative both to track the impacts of a national program and to estimate the impacts of various state or regional initiatives. To this end, the methodology incorporates both state and industry effects of the credit programs. However, data limitations discussed in Chapter 5 limit a full application of the methodology in these areas.

3.2 THE FIRST ROUND EXPORT IMPACTS -- THE ADDITIONALITY PROBLEM

Whenever a public policy maker attempts to influence private sector behavior, the additionality problem is present. Policy makers would like to offer inducements to private sector

decision makers to change behavior, e.g., generate new exports. Private sector decision makers, meanwhile, would like to capture inducements without changing behavior. In the case at hand, the problem may be stated as "Can policies and programs be designed and implemented that create new small business exports -- adding to prior sales levels -- rather than merely enhance the profitability of existing export sales?" It is precisely at this point where a methodology to estimate the macroeconomic impacts of public policy must be general enough to incorporate institutional criteria and considerations. Concern must be focused on delivery systems that allow a maximum number of firms to participate in the program, e.g., absorb the program funding, but at the same time ensure that funded firms do in fact modify their behavior in the desired direction. Allowance must be made for the fact that even in the best of circumstances 100% additionality cannot be guaranteed.

The additionality problem is thus a major issue in evaluating policies to enhance the export performance of small business. The methodological question may be put simply: How much new export revenue or volume is attributable to a specific program or policy? To emphasize the complexity involved in answering this question, it is often restated as: How much export revenue or volume would not have occurred without a policy? The original question and its counterfactual reformulation have been answered in the literature in at least five different ways:

- By simulation. That is, an additionality factor is assumed for first round export creation.

- By sample survey. This requires asking exporters or potential exporters how much a program, in effect or contemplated, would increase their exports.

- By use of cost, cum price, cum elasticity of demand estimates. For example, a loan subsidy lowered the cost of producing product X, which in turn allowed the producer of X to lower the price of X which, resulted in an increase in the sales of X, the magnitude of which is determined by the elasticity of demand for X, so that the increased sales volume associated with a decrease in price is the additionality measure.

- By comparative export growth rate analysis. For example, if the universe of exporters could be divided (in time or space) into a part that is affected by a particular program and a part unaffected by that program, the positive (negative) difference between the affected exporters and unaffected exporters can be identified as the extent of additionality.

- By developing an "additionality" index to apply to each transaction affected by the policy and, subsequently, aggregating the results, usually weighting each transaction by its dollar value.

None of these approaches is wholly satisfactory. All have obvious problems of which this study is cognizant but not directed to solve. Instead, we have examined the additionality factors used in previous evaluations of policies similar to those evaluated here, established a range and estimated first round export effects on the basis of this range. In addition the group of telephone interviews provided a basis for setting an absorption boundary. This boundary allows us to compare our high end additionality estimates with the capability of the entire small business sector to expand. Specifically, the interviwed firms estimated they could double their export sales if better financing were available. Translating these expectations to the larger universe of small business exporters this would imply their ability to increase exports by 15 to 20 billion dollars over the 1980 level. Even if these claims are exaggerated, they validate the upper limit of our additionality range. In the most extreme case considered in Chapters 4 and 5, possible new exports generated by the policies considered would be only 6.7 billion dollars.

We have chosen to follow previous studies and the experience of other institutions as guides for determining the range of

potential additionality coefficients. We will argue in the Chapter 4 discussion of each policy that proper institutional design will achieve higher additionality. In any case, institutional analysis is incorporated within a structure of more formal economic analysis in that the value $\triangle P$ -- change in exports -- fully recognizes institutional considerations.

3.3 FORMAL SPECIFICATIONS OF THE METHODOLOGY

The following represents the formal specification of the multiplier analysis used in this study, to address all of the concerns listed above.

The formal specification of the methodology begins with the first round effects, both direct and indirect.

Let P^i = One billion dollars for the ith policy type

First Round Effects

Where

ΔP^i_{jk} = amount going to jth industry, kth region from the ith policy

(1) $\Delta P^i = \sum_j \sum_k \Delta P^i_{jk}$

Let

X^i_{jk} = export multiplier for ith policy, jth industry, kth region

ΔX^i_{jk} = exports generated in jth industry, kth region by ith policy

ΔX^i = exports generated by ith policy

(2) $\Delta X^i_{jk} = X^i_{jk} \ \Delta P^i_{jk}$

(3) $\Delta X^i = \sum_j \sum_k \Delta x^i_{jk} = \sum_j \sum_k x^i_{jk} \ \Delta P^i_{jk}$

Let

ℓ_{jk} = Small business employment multiplier for jth industry, kth region

And

(4) $\Delta L^i_{jk} = \ell_{jk} \ \Delta X^i_{jk}$

Therefore, the first round employment impact of one billion dollars spent on policy instrument "i" is found from:

(5) $\Delta L^i \ (\Delta P^i) = \sum_j \sum_k \Delta L^i_{jk} = \sum_j \sum_k \ell_{jk} \ \Delta X^i_{jk}$

Similarly, let

t_k = Effective small business tax rate for kth region

And

(6) $\Delta T^i_k = t_k \sum_j \Delta X^i_{jk}$

Therefore, the first round revenue impact of one billion dollars spent on policy instrument "i" is found from:

(7) $\underset{10}{\Delta T^i} \ (\Delta P^i) = \sum_k \Delta T^i_k = \sum_k t_k \ (\sum_j \Delta X^i_{jk})$

Second Round Effects

Consider the change in exports in the kth region associated with spending one billion dollars by the ith policy that is:

$$(8)\quad \Delta X_k^i = \sum_j \Delta X_{jk}^i = \sum_j x_i^i \Delta P_{jk}^i$$

Let

μ_k = GNP multiplier for region "k"

Then, the second round effect on GNP of ΔP_{10}^i is

$$(9)\quad \Delta GNP = \sum_k \Delta(GNP)_x^i = \sum_k \mu_x \Delta X_k^i$$

Similarly, let λ_k be the employment multiplier for region "k." Then the second round effect on employment of ΔP^i is

$$(10)\quad \Delta L_2^i = \sum_k \lambda_k \Delta(GNP)_k^i = \sum_k \lambda_k \mu_x \Delta X_k^i$$

Let "i" be the effective tax rate on GNP then the second round effect on revenue is:

$$(11)\quad \Delta T_2^i = i \Delta GNP^i = i \sum_k \mu_k \Delta X_k^i$$

Total Effects

The employment effect of spending one billion dollars through the ith policy is:

$$(12)\quad \Delta L^i \underset{10}{(\Delta P^i)} = \Delta L_1^i + \Delta L_2^i$$

$$= \sum_j \sum_k \ell_{jk}^i \Delta X_{jk}^i + \sum_k \lambda_k \Delta(GNP)_k^i$$

$$= \sum_j \sum_k \ell_{jk} x_{jk}^i \Delta P_{jk}^i + \sum_k \lambda_k \mu_k \left(\sum_j x_{ij}^i \Delta P_{jk}^i\right)$$

The revenue effect of spending one billion dollars through the ith policy is:

$$(13)\quad \Delta T^i \underset{10}{(\Delta P^i)} = \Delta T_1^i + \Delta T_2^i$$

$$= \sum_k t_k \left(\Sigma \Delta X_{jk}^i\right) + i\Sigma_k \mu_k \Delta X_k^i$$

3.4 PROCEDURES OF ESTIMATING SMALL BUSINESS EXPORT LEVELS, INDUSTRY DISTRIBUTION, AND REGIONAL DISTRIBUTION

As noted in Chapter 1, no reliable set of data exists on the level, industry distribution, or regional distribution of small business exports. There are two separate tasks involved here. One is specifying a formal methodology to track the macroeconomic impacts of the dollar stream of small business exports. A second is to develop procedures for establishing the current level, industry distribution, and regional distribution of small business exports.

Two primary sources of survey data were used in developing our estimates of small business exports and their industry/regional

distributions. One is a special tabulation of the 1977 Census of Enterprises Statistics undertaken for the Small Business Administration, and the other is. The 1980 Annual Survey of Manufactures. Origin of Exports of Manufactured Products (D.O.C.). In most cases data from 1977 would have to be considered out of date, however, our use of the data was for determining relations between small business and all business by industry category. These relations, which change slowly through time, were utilized to establish both the income and employment differentials resulting from small business exports. The 1980 Survey of Manufactures data were used to describe the industry distribution of all manufactured exports and to distribute these exports by industry and state.

An example helps make clear the principles guiding our estimation procedure. In order to estimate industry distribution of small business exports, the following procedure was undertaken. First, we calculated the proportion of total industry sales accounted for by small business in each 2 digit manufacturing SIC categories (20 through 39). Second, we calculated the percentage of total manufactured exports accounted for by each two-digit industry. Finally, the share of small business exports in total exports was derived by multiplying each industry SIC share of total exports by the share of total sales accounted for by small business in that SIC category.

CHAPTER 4

POLICIES TO PROVIDE FINANCING SUPPORT FOR SMALL BUSINESS EXPORTERS

In this chapter, four export credit programs oriented toward small business are reviewed and compared:

- Non recourse loan guarantees to commercial banks for export receivables credits.
- Guarantees of loans by commercial bank for small business working capital on export sales.
- Interest rate equalization through commercial banks.
- Direct loans by an official entity to foreign buyers from small business exporters.

The rationale, description, projected costs and gross export results for each of these programs are reviewed below. For each program, problems associated with program design and with assuring additionality are also examined in the first section of the chapter.

4.1 PROGRAM DESIGN ELEMENTS

The selected programs clearly do not exhaust all possible alternatives, and the operating characteristics of the programs

as described here (e.g. proportion of capital needs covered, length of loan) could vary. However, the selected approaches appear to be the most viable of the numerous options recently explored within the U.S. Department of Commerce.[1] The operating characteristics are also realistic, approximating practices of the Export Import Bank (EXIMBANK), the Small Business Administration and other comparable agencies.

The rationale for special consideration to small business exporters credit problems is reviewed in Chapter 2 above. Exporters dealing in relatively small volume and value of individual transactions generally find credit options fewer and costs of transactions (e.g. credit checks, etc.) higher. They cannot float commercial paper easily and must, in effect, pledge their business assets to gain any credits. They are also more vulnerable to the longer repayment terms typical to international transactions, often stretching to six months.

4.1.1 Administrative Costs and Default Rates

With respect to administrative costs and credit default rates, the experience of EXIMBANK, SBA and other government agencies was drawn upon. From discussions with administrative and congressional sources, "reasonable" estimates were made of these cost items as they might hold for the proposed programs.

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[1] See for example, "Preliminary Inventory: Export Financing Proposals and Ideas," U.S. Department of Commerce, August 18, 1982 (internal document)

Administrative costs in similar government bank or credit agencies typically range from one to two percent of the portfolio so that a $1 billion credit program would cost $10-20 million to administer. Since most of these agencies also provide technical assistance to the same client groups, it is extremely difficult to give precise estimates of the "pure" administrative cost.

Default rate estimates for the selected programs must also draw on not completely comparable experience. The Small Business Administration overall portfolio has been created largely from that agency's role as lender of last resort. Default rates on inherently risky enterprises thus tend to dominate its portfolio and explain the 32% gross default rate (21% net rate after liquidation). This rate is, however, cyclical and falls substantially in non-recession periods. A more appropriate comparison may be with the SBA direct loan portfolio where gross defaults average 13% and net defaults about 10%.

4.1.2 Program Design Elements to Increase Additionality

With respect to "additionality", the policies considered in this Chapter are all intended to expand exports and not simply to create new credit entitlements. Therefore, participation in the program must be to some extent controlled or limited to those sales which would not otherwise have occurred. Only in this manner can some additionality be gained. At the same time, excess restraints on participation will result in an ineffective

or unutilized program. The program design must in each case seek to gain maximum additionality and participation, even though these two objectives are in conflict. The policies considered here will probably show a middle range of additionality, i.e., from about 25% to 75%. The lower figure may be expected during initial or start-up period and be improved after the first year of experience.

Although the precise design of the selected programs obviously lies outside the scope of this report, one technique for making the programs more responsive to changing market conditions and to swings in the business cycle is the "trigger mechanism." Program administrators might be empowered to expand or to contract the program or to shift emphasis among regions or industries according to specified objective measures. For example, the interest rate equalization program might be set up on a stand-by basis. It would be activated only in situations where evidence is found that foreign competitors are undercutting U.S. small business exporters through reduced interest loans to buyers. Other triggers would be appropriate for other programs which could be held in reserve. Another trigger could be set to expand rapidly exporter credits to small business in regions or in industries where unemployment is above a specified level.

Competitive considerations may also enter the picture as a basis for giving preference to certain small business exporters over

others. These considerations are often paramount to the EXIMBANK in deciding upon loans for such large or lumpy products as aircraft or turbines, where the potential competitors are easily identified and credits can be designed to fit competitive needs. Most small-scale exporters are dealing in less differentiated, lower unit cost goods which tend to have a number of international competitors. One manner of rationing credits -- thus reducing program participation but building additionality -- is to require some justification by the exporter of the competitive disadvantage which the credit or guarantee would overcome. This concern would be particularly relevant for the interest rate equalization and direct loans programs considered below.

Another general mechanism to increase additionality is to make participation in any of the programs contingent upon increased exports sales. For example, participation in the interest rate equalization program might be restricted to firms which have increased their export sales by an annual average of more than 5% over the preceding 3 years. If the "depth" of subsidy is less, as it is in the loan guarantee programs, less stringent conditions might be imposed. Incremental performance requirements could be combined with trigger mechanisms to insure that performance improvement requirements were relaxed during downturns in the business cycle.

A final general design element to increase additionality is the "match" between the level of government and program clients. The EXIMBANK credits itself with a strong performance in insuring additionality, when it reports an 88% probability that each dollar that it lent in 1981 resulted in additional exports. This estimate has been subject to some criticism. Nevertheless, even if one views all of the estimates offered by supporters of government intervention in the foreign trade as high, and appropriately discounts them, the EXIMBANK performance is still probably one of the best.

The reason for this successful performance is revealed in the method by which the bank examines its own performance. This method relies upon a case by case examination of loan transactions and, thus, implies an intimate knowledge of each case by the bank staff. Parethentically, the area of concern to this study is one where even supporters of the bank have been critical and where the number of transactions prevents as complete knowledge on a loan by loan basis.

The implication, for designing additionality into programs to enhance small business exports, is that delivery systems and clientele should match. Less abstractly, a program organized at the national level delivering support to large firms (e.g. EXIMBANK and Boeing) is a match. The EXIMBANK may not be the right match for a firm with half a million dollars a year worth

of exports. For this study, it is assumed that programs delivered by state, local, or federal field office institutions will create greater additionality since these agencies know their clientele, and can deal with them on a continuing basis.

4.2 EXPORT RECEIVABLES CREDIT GUARANTEE

Most small business exporters are obliged by competition and commercial practice to await payment for up to six months. The exporters are thus obliged to carry this cost and risk, whether able to secure bank credits to cover or not. Under recent interest rate conditions, small firms were obliged to pay 25-35% for receivables credit and were still fully exposed to all payment risks and delays. In brief, the credit market does not adequately serve these exporters, especially in comparison with principal international competitors, e.g., Japan. In the gti, small business exporters ranked lack of competitiveness in finance as a major cause of their poor export sales growth since 1980.

4.2.1 Proposal

EXIMBANK will guarantee, on a non recourse basis to the exporter, the credits extended by commercial banks on export receivables. The exporter's credit capacity would thus be enlarged since the company's other assets need not be pledged. The relative coverage of the EXIMBANK guarantee can vary: lower coverage (say, 50% of a particular firm's export receivables) will permit more firms to be included within given funding

authority, while higher coverage would attract more potential exporters. The unguaranteed portion of the credit will be carried by the commercial bank. For present purposes, an EXIMBANK guarantee to cover 65% of the receivables has been assumed. A turnaround time of 180 days is assumed so that twice the fund authorization can be guaranteed annually.

The commercial bank would charge a market rate negotiated with the borrower, and would be responsible for credit worthiness review of the buyer, based upon references supplied by the exporter. EXIMBANK would provide prior approval of credit to a particular exporter but would permit commitments to be rolled over to the same borrower once authorization is given. This would limit EXIMBANK administrative involvement and costs without reducing the commercial bank responsibilities. The borrower would need to provide signed purchase orders and other documents to the lender bank to initiate drawdowns on the credit line. After the receivables are delivered to the bank, the EXIMBANK guarantee becomes effective, and settlement by the foreign buyers is with the lending bank.

One agency -- the Foreign Credit Insurance Association (FCIA), a private sector agent of the EXIMBANK -- currently provides insurance support to short term export credits through commercial banks. However, many banks are reported to resist acceptance of FCIA insurance as adequate for non recourse

financing in light of certain FCIA regulations. FCIA might be brought directly into the administration of the receivables credit program or they might reinsure EXIMBANK's guarantees.

4.2.2 Costs and Gross Impact

The administrative costs to EXIMBANK (or other government administrative agency) would be relatively modest compared with direct loan programs since risk-sharing banks have the responsibility and the incentive to review credit worthiness of the exporter and the buyers. The rate is assumed to be 2% of the guarantee amount. Default costs are also likely to be low but not negligible. Based upon SBA experience, a default rate of 8%/yr. is assumed for cost-benefit calculations. Total costs, therefore, are estimated at 10% of the program budget.

The gross impact (G) -- i.e., the total value of small business exports that could be facilitated annually per billion dollars of authority -- is estimated from the following equation:

$$G = \frac{365}{\text{turnaround period}} \times \frac{1B - (\text{total costs \%}) \times \$1B}{\text{\% guarantee cover}}$$

$$= \frac{365}{180} \times \frac{\$1B - (10\%)\ (\$1B)}{.65} = \$2.77B$$

In brief, the authorization of one billion dollars to guarantee small business export receivables would permit about $2.77 billion in exports to be financed annually.

4.2.3 Additionality Considerations

A major policy choice for a receivables guarantee program is how previous export experience will be weighed in evaluating entry to the program. Full additionality -- and very low participation -- would be assured by limiting credit guarantee to only those exporters without previous exports or to only the incremental value of exports by established exporters. Lower (but certainly not zero) additionality would be gained by permitting full guarantees to small business exporters during some initial period, or on their first filing; subsequent credit guarantees would be granted if their individual company value of exports increased.

At least one limitation to this approach is the fact that exports vary greatly with the business cycle. The gti showed that small business exports dropped from 1980 to 1982 even in nominal terms. This is evidence that small business is even more vulnerable to business cycles than business as a whole and to the increased international competition of downturns. The design of eligibility criteria for export receivables guarantees and for other programs would need to take this fact into full account.

4.3 WORKING CAPITAL FOR EXPORT

A rationale similar to that reviewed above with respect to export receivables is equally relevant to proposals to guarantee working capital loans for exports. The most pressing capital

need of small business is repeatedly judged to be working capital. As with the receivables guarantees, most international competitors provide their exporters with a similar kind of "pure cover," that is, unsubsidized guarantee to commercial lenders, and thus permit the exporters more readily to respond to trade opportunities.

4.3.1 Proposal

EXIMBANK will guarantee the credit extended by a commercial bank at negotiated market rates to a small business exporter, for amounts up to $2 million as an individual creditor ceiling. Coverage would be for half of the export contract value. The period of the loans would average 90 days, normally sufficient to cover input acquisition, processing and shipment. Individual creditors would need to justify the length of the loan with the bank in terms of their specific operating processes. The credit guarantee and dispersal could be for less than the full production period since the exporter can take advantage of normal commercial practice to defer supplier payments for at least 60 days.

Through its guarantee, EXIMBANK would be protecting the commercial bank against default by the exporters. Nonetheless, the commercial bank would be responsible for credit worthiness determination on both the exporter and the buyers. Once a

specific exporter were approved for this guarantee by EXIMBANK, the bank might be permitted to renew the line for a period of, say, one year.

As with the export receivables program, the commercial bank would bear responsibility for recovery of the loan. The EXIMBANK would enter the transaction only if default threatens or, in fact, occurs.

4.3.2 Cost and Gross Impact

The administrative costs to EXIMBANK of the working capital guarantees should be no greater proportionately than guarantees for receivables, estimated above at 2 percent of the guarantee amount. However, the more frequent turnaround of working capital loans exposes the agency to more risk. It may be assumed that default rates will run toward the middle range of SBA experience, or 15 percent. Total costs are, therefore, about 17 percent per year of the guarantee amount.

For every billion dollars of working capital guaranteed by EXIMBANK, the G value is $4.44B, that is, the working capital guarantee program generates about 4.4 times its authorization level annually in export finance.

4.3.3 Additionality Considerations

Concerns similar to those expressed above for a receivables guarantee program pertain to "base fixing" for the working

capital guarantees. In particular, it is necessary to fix an experience base for individual exporters in order to assure that a major proportion of the program is additional and does not simply displace operating credit programs. The solution to this additionality-participation trade-off problem will be similar to that for receivables guarantees, i.e., to allow small business exporters to establish baseline volume or value of exports, and hinge credit expansion to individual exporter's expansion of exports.

4.4 INTEREST RATE EQUALIZATION

Small (and large) business exporters have faced very large disadvantages fostered by low effective costs of export financing enjoyed by international competitors. Some greater stability and openness in credit competition was brought on as a result of the OECD "Arrangement" concluded in 1978 (see Chapter 2.4). Nonetheless, differences persist and the continuing recession promises to exacerbate the problem. U.S. DOC officials indicate that the current difference between the market rate and effective rates is about 10 basis points for exporting firms in Europe.

Larger exporters can deal directly with the EXIMBANK to meet competitive threats. Small business exporters still lack special lending support which provides credit on a controlled subsidy basis, that is, one which does not "initiate" aggressive

credit competition but is able to meet the international competition. Interest rate equalization programs would be designed to meet this situation through the EXIMBANK. To handle the problem of "retailing" credits to small-scale exporters, the commercial banks would intermediate the credits.

The gti survey pointed strongly to comparative costs of credit as a major source of market shares lost by to small business exporters. A continuation of this erosion will deprive U.S. producers of trade, even after the current recession is overcome. It may also be argued that a response of this sort -- directly challenging the practices of unsanctioned trading competitors -- will force the subsidy issue into negotiation.

4.4.1 Proposal

EXIMBANK provides to commercial banks an interest rate differential payment for credits to selected small business exporters. The payment compensates the lender for the difference between the market rate and the rate which has been determined that competing foreign suppliers of the small business borrower are receiving.

The commercial bank would have prime responsibility for negotiating the loan with the exporter and establishing credit worthiness. The request for credits within this program originate with the borrower or the lender, but determination of

eligibility would be made by EXIMBANK. The U.S. and Foreign Commercial Service service of the U.S. Department of Commerce might provide the data needed in the determination, verifying competitors' access to subsidized credits.

Exporters receiving such credits would be obliged to meet more stringent requirements than the programs discussed above. In addition, the availability of the subsidy would be withdrawn if the credit programs that triggered the program application were abandoned. The length of the credit would vary, but an average of one year may be assumed. The maximum amount available under this program to an individual firm would be set at $5 million with full credit subsidy, to assure that the benefits are channeled to small business exporters. The average subsidy is assumed to be 10 basis points.

4.4.2 Costs and Gross Impacts

The administrative costs of this program for EXIMBANK would be relatively large since it bears responsibility for determining that a particular subsidy is justified. An administrative cost of 10 percent of the program appropriation is assumed here. There is, of course, no direct recovery of the subsidy. The default rate is likely to be lower than the programs discussed earlier, perhaps 2 percent, but this would be borne by the commercial lender, not the EXIMBANK. On these assumptions, the G value, gross exports would be 9.0 billion per billion dollar program expenditure.

4.4.3 Additionality Considerations

Since the success of this program most explicitly depends on meeting competing credit conditions and is the most costly in terms of actual government expenditures there is a strong argument that participation should be sacrificed to additionality.

The EXIMBANK and/or U.S. DOC would establish the necessity for the subsidy in terms of lost markets. Rules for continuation of the credits to the U.S. exporter would be devised to assure that (1) the initiating condition persists so that interest subsidy arrangements are necessary in order for the exporter to hold the market, and (2) the exporter maintains or expands his sales level or market share. The specific rules would need careful drafting to assure fairness to the exporter, and that there is adequate additionality.

4.5 DIRECT LOANS TO BUYERS

The continuing worldwide recession has sparked foreign competitors to expand their credit programs. The OECD "Arrangement" on interest rates, maturities and other credit conditions for loans to buyers -- where fully respected -- applies some restraints to competing credit agencies and exporters (see Chapter 2). In the U.S., however, customer credits are virtually unavailable to clients of small-scale exporters. This program could be implemented by expansion of EXIMBANK activities.

4.5.1 Proposal

EXIMBANK authority and staff would be augmented to permit foreign clients of small business exporters to receive credit equivalent to that now available to clients of larger firms. There would be some adjustment necessary in procedures and regulations to fit the (presumably) smaller size of the borrower, and more diverse industries in which they are likely to be distributed.

The small business exporter would be required to establish his own eligibility and to provide appropriate documentation relative to the foreign buyer.

Credits would be limited to 75 percent of the transaction for at most two years (average of one year) to encourage broad participation. The maximum credit to a single borrower would be set at $2 million. Credit worthiness determination would be made by the EXIMBANK, although an arrangement may be sought whereby the borrowers government provides partial or total credit guarantee.

4.5.2 Costs and Gross Impact

Administrative costs for this program must cover the need for EXIMBANK to make credit determination and handle the repayment process. These burdens will not be shared with the commercial banking sector. Administrative costs are estimated at 3 percent

of lending authority. Default rates of EXIMBANK credits to larger scale borrowers are only a partial guide to default expectations in the present program. A prudent estimate is that the rate would average 14 percent. Overall program costs under these assumptions would thus reach 17 percent of the lending total.

The gross benefit estimate (G) of the direct loan program would be $1.1 billion per billion dollars of credit authorization.

4.5.3. Additionality Considerations

If the experience of EXIMBANK with its large scale borrowers were transferable to the proposed program, additionality rates of 85-90 percent might be expected. These levels are probably unrealistic when considering small business, however, additionality rates of 75 percent may be expected if appropriate attention is given in the client review process.

Techniques for assuring more additionality would be similar to those suggested for the interest rate equalization program. In particular, exporter performance must be monitored, and growth in volume and market shares rewarded by permitting the exporters to continue in the program.

CHAPTER 5

THE MACROECONOMIC IMPACT OF FINANCIAL POLICIES TO STIMULATE SMALL BUSINESS EXPORTS

In this chapter, we present estimates of the income, employment and tax effects of the selected credit policies to stimulate small business exports. Our methodology allows these impacts to be compared with those generated by other government action (e.g., a tax cut), or by other changes in demand (an increase in the demand for all exports). It should be remembered, that differences in the projected macroeconomic impact of the policies to stimulate small business exports may result from differences in policy design -- such as the number of times program funds turn over each year, or the portion of a transaction financed by a loan guarantee. Thus, the projected macroeconomic effects are insufficient by themselves to choose among policy options to increase small business exports.

We have not to this point discussed the absorptive capacity of the small business manufactures exporting sector. By absorptive capacity we mean the ability of small business exporters to increase production sufficiently to fully utilize the export credit incentives analyzed in this report. Throughout the following analysis the changes in exports are assumed to take place in a one year period. For the most part our finding support this assumption. The respondents to the group of telephone interviews reported only 66% capacity utilization for

1982 and indicated that better and more competitive export financing would have allowed a doubling of export sales. Nevertheless a more conservative interpretation of our results would be to accept the estimated impacts as those resulting from a program in its second or third years of operation, rather than the start up year. If nothing else this recognizes the problems government may have in publicizing and delivering new export financing options to small business.

This chapter procedes by first conparing a one billion dollar change in demand for small business exports (independent of the policy stimulus) with a billion dollar change in defense procurement, a billion dollar change in the demand for all exports and a billion dollar injection into the economy through a tax cut. Second, comparisons among the options to stimulate small business exports are presented on a budget authority basis and on an estimated expenditure basis. In all of the cases in which the policies to stimulate small business exports are compared against one another a range of estimated effects are presented. The high end of each range is for 75% additionality (i.e., 75% of the exports covered by the program would <u>not</u> have occurred without the program), while the low end represents 25% additionality.

5.1 TERMS OF REFERENCE

As a formal matter, the macroeconomic impact of a stimulative policy or any injection into the economy is defined to include:

- Change in GNP.
- Change in employment.
- Change in tax revenues (federal, state and local).

As the methodology specifies, the change in each component can be separated into:

- An initial effect (both direct and indirect) occurring more or less immediately.
- Multiplier or induced effect occurring over the following 18 months.
- A total effect, i.e., the sum of the initial and multiplier effects.

The initial macroeconomic effects may be further separated into changes for final producer (direct effects), and effects on supplier input industries (indirect effects).

The relation between a dollar's worth of spending and its ultimate impact on GNP, employment, and taxes, is the heart of multiplier analysis. Many practitioners of economic analysis

are continually involved in estimating and re-estimating expenditure and tax multipliers. The current "consensus" of the profession regarding these multipliers appears to be the following:[1]

- Multiplier for direct expenditures, e.g., change in exports or government purchases, = 1.7.

- Multiplier for a change in taxes, based upon the assumption that 2/3rds are personal, and 1/3rd is corporate, = 1.1.

Concerning tax rates, our estimates assume:

- The total federal tax burden,-- corporate income, individual income, excise, and employment-related -- is equal to 25 percent of income.

- The total state and local tax burden -- income, sales and property -- to equal an additional 10 percent of income.

A final term of reference concerns the procedure we have chosen to estimate employment changes. The same procedure was used for

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[1] This "consensus" is based upon the review of multipliers used by the Congressional Budget Office, Office of Management and Budget, and Wharton Forecasting Associates.

both the small businesses and all business estimates. The payroll share of direct exports sales was estimated using appropriate industry ratios derived from the 1977 Census. The first round direct employment years accounted for by each change in exports was calculated by dividing the labor share of export sales by the appropriate annual average wage per production worker (stratified by industry and firm size). For both export changes indirect employment effects were assumed to be roughly equivalent to the current U.S. DOC estimate of the indirect employment resulting from a one billion dollar change in manufactured exports.[2] Induced or multiplier effects for all employment estimates were calculated using an estimate of a 50,000 job change within one year and a half of a billion dollar change in aggregate demand. Our estimates of the employment effect of a billion dollar change in defense procurement and a billion dollar tax cut represent consensus outputs of several different sources. For the change in defense procurement we relie upon estimates of the Policy Analysis and Evaluation section of the Office of the Secretary of Defense. For the tax cut employment impact we have used a consensus of several econometric models.

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[2]U.S. Department of Commerce, International Trade Administration has provided us with the ratio of direct to indirect employment for one billion dollars worth of manufactured exports. We have used our own direct employment estimate for all manufactured exports and the ITA ratio to compute indirect employment. The resulting figure has also been used for the indirect employment impact of a billion dollar change in small business exports. This last assumption is somewhat weak in that the composition of all manufacturing and small manufacturing exports differ.

5.2 A BILLION DOLLAR INJECTION: COMPARISON

A tax cut, a change in defense procurement an increase in the demand for all manufactured exports, and an increase in the demand for small business export all have different macroeconomic impacts. Two differences are particularly significant:

- o A relatively small change in income, employment and taxes results from a tax cut relative to the other injections.

- o The higher employment impact of increasing small business exports relative to the other three injections.

5.2.1 G.N.P.

The injection of a billion dollar stimulus through a change in defense purchases, all manufactured exports, and small business exports, are estimated to have an equal effect on GNP. A billion dollar tax cut is estimated to have a smaller effect on GNP because a portion of the initial injection is saved rather than spent. The initial gap between a tax cut and the other options closes after 18 months because savings are also made from the second round spending of the other injections. (See Table 5.1)

Table 5.1

GNP Growth: Effects of Alternative Economic Stimuli given One Billion Dollar Injection

Stimulus	Initial Effects	Effects After 18 Months	Total Effects
		(Billions of Dollars)	
Defense Purchases	1.0	0.7	1.7
Tax Cut	0.6	0.5	1.1
All Manufactured Exports	1.0	0.7	1.7
Small Business Manufactured Exports	1.0	0.7	1.7

5.2.2 Employment

The employment impact of a change in small business exports is greater than for any of the other injections considered. In percentage terms, the small business export injection accounts for 14 percent more employment years than an increase in all manufactured exports, 12 percent more than an increase in defense procurement and 58 percent more employment years than a tax cut. Concerning the latter, the differential impact is explained in the same way the lower GNP effect of a tax cut is accounted for: a substantial portion of the initial injection is saved. Small business exports have a greater employment impact than the other two other injections because, relative to all business, small businesses use more workers relative to output, and pay these workers lower wages. (See Table 5.2)

Table 5.2

Employment Years Generated by Alternative Economic Stimulus for a One Billion Dollar Injection

Stimulus	Initial Effects	Multiplier Effect After 18 Months	Total Effects
Defense Procurement	25,000	20,588	45,588
Tax Cut	17,647	14,706	32,353
All Manufactured Exports	24,064	20,588	44,652
Small Business Manufactured Exports	30,516	20,588	51,104

5.2.3 Taxes

Because our estimates of tax effects are a direct function of the GNP effect, the relation among alternatives is identical to the GNP comparison. (See Table 5.3)

Table 5.3

Tax Increase: Effects of Alternative Economic Stimuli Given a One Billion Dollar Injection

Stimulus/Government	Effects	18 Months	Effects
	(Billions of Dollars)		
Defense Purchases			
Federal	.25	.18	.43
State & Local	.10	.07	.17
Tax Cut			
Federal	.15	.13	.28
State & Local	.04	.05	.09
All Manufactured Exports			
Federal	.25	.18	.43
State & Local	.10	.07	.17
Small Business Manufactured Exports			
Federal	.25	.18	.43
State & Local	.10	.07	.17

5.3 COMPARISON: MACROECONOMIC EFFECTS OF POLICIES TO STIMULATE EXPORTS

Our analysis of credit policies to stimulate small business exports began in the preceding chapter. There we established the gross export effects for each policy, additionality considerations for each type of policy, and suggested ways to encourage high additionality.

In this section, the estimates of the macroeconomic effect of each policy are presented, including a high additionality and low additionality estimate of the initial, multiplier, and total GNP, employment, and tax effects. It should be emphasized that we estimate these effects on a **budget authority** basis rather than **actual expenditures**. Some of the conclusions one might draw based upon budget authority alone do not hold up when those actual expenditures are considered. Specifically, when the policy options are evaluated on a budget authority basis the interest rate equalization options (IRE) is superior. On an actual expenditure basis, however, IRE expenditures are five times greater than any of the loan programs (See Section 5.4).

5.3.1 GNP Effects

On a one billion dollar budget authority basis, the interest rate equalization (IRE) policy has the greatest effect on GNP and, accordingly, on employment and taxes. We estimate a high additionality figure of 11.5 billion dollars after 18 months,

the annualized equivalent of one-quarter of 1 percent of GNP. The ranges and ranking of the IRE and other policies are seen in Table 5.4.

Table 5.4

GNP Growth: Effects of Small Business Credit Proposals given One Billion Dollar Budget Authority

Policy	Initial Effects	Effects After 18 Months	Total Effects
		(Billions of Dollars)	
Receivables	.68 - 2.03	.48 - 1.42	1.16 - 3.45
Working Capital	1.08 - 3.23	.76 - 2.26	1.84 - 5.49
Interest Rate Equilization	2.25 - 6.75	1.58 - 4.73	3.83 - 11.48
Direct Loans To Buyers	.27 - .80	.19 - .56	.46 - 1.36

5.3.2 Employment

The employment impacts of the credit policies to promote small business exports are particularly significant in light of the current employment situation. Our estimates may be thought of as "average person years of employment" rather than new jobs created, since a portion of the new export demand would be produced by currently employed, but underutilized, workers. Nevertheless, even after accounting for this overstatement, the policies appear to produce a significant number of new jobs. At extreme, the IRE policy is estimated to account for as many as 200,000 high-quality, private-sector employment years in the export sector and an additional 140,000 years of employment elsewhere in the economy. Nonetheless, even the options

creating fewer jobs on an outlay basis are quite respectable when measured on a criterion of expenditures per job created. (See Table 5.5)

A note of caution should, however, be added. It is unlikely that the volume of new exports necessary to produce the higher employment figures of above 200,000 employment years would be produced in the initiated year of a program. Such an expansion would probably have to occur over several years.

Table 5.5

Employment Years: Effects of Small Business Credit Proposals given One Billion Dollar Budget Authority

Policy	Initial Effects	Effects After 18 Months	Total Effects
		(Thousands of Jobs)	
Receivables	20.4 - 60.9	14.3 - 42.6	34.7 - 103.6
Working Capital	36.1 - 107.3	19.1 - 57.1	55.2 - 164.3
Interest Rate Equalization	67.6 - 202.8	47.3 - 141.9	114.9 - 345.0
Direct Loans To Buyers	24.0 - 95.4	16.8 - 56.8	40.8 - 137.9

5.3.3 Taxes

The tax effects of the policy set conform to the pattern established in the GNP and employment effects. The policies which increase income most significantly also result in the highest tax revenue. (See Table 5.6)

Table 5.6

Tax Increase: Effects of Small Business Credit Proposals given One Billion Dollar Budget Authority

Policy Government	Initial Effects	Effects After 18 Months	Total Effects
		(Billions of Dollars)	
Receivables			
Federal	.17 - .51	.12 - .36	.29 - .87
State & Local	.07 - .20	.05 - .14	.12 - .34
Working Capital			
Federal	.27 - .81	.19 - .58	.46 - 1.39
State & Local	.11 - .32	.08 - .23	.19 - .55
Interest Rate Equalization			
Federal	.56 - 1.69	.41 - 1.22	.97 - 2.89
State & Local	.23 - .68	.16 - .47	.39 - 1.15
Direct Loans To Business			
Federal	.07 - .20	.05 - .14	.12 - .34
State & Local	.03 - .08	.02 - .06	.05 - .14

5.4 EXPENDITURE COMPARISON

The budget authority comparison undertaken in section 5.3 should be balanced against a budget expenditure comparison. Because the export receivables, working capital, and direct loans to buyer policies are all loan guarantee programs, the government would only spend a fraction of the budgeted authority, i.e., that part absorbed in default and administrative costs. The interest rate equalization policy, on the other hand, is a direct subsidy; thus a billion dollars of authorization will become expenditure to small business exporters who can justify such interventions.

It should be noted that all of the macroeconomic effect estimates presented in Section 5.3 can arguably be absorbed by

the small business exporting community. Even at the extreme -- the high end of the interest rate equalization policy -- our estimate of a 6.75 billion dollar change in small business exports would represent about a 40 percent (nominal) increase over our estimate of total small business exports for 1980. Referencing the comparison of macroeconomic impacts relative to expenditures, a temptation may exist to propose higher levels of program support which would exceed the small business sector's absorptive capacity. After all, if an expenditure of 170 million dollars can create as much as 3.2 billion dollars worth of new exports why shouldn't 1.7 billion in expenditure result in 30.2 billion dollars worth of exports? Aside from the likely undesirable effect on capital markets, the answer is absorptive capacity. The ability of the sector to take advantage of any stimulus must be weighed against the sectoral capacity to increase output.

As in Section 5.3, we compare the estimated economic impacts for each export credit proposal. Unlike the budget authority comparison, the level of expenditure -- estimated cost to the government differs among the proposal. Specifically, per billion dollars of authorization, we estimate the following actual expenditures (see Table 5.7).

Table 5.7

Estimated Expenditures for Each Policy for a Billion Dollar Budget Authorization

(Billions of dollars)

Policy Type	Expenditure
Receivables Credit	.10
Working Capital Credit	.17
Interest Rate Equalization	1.00
Direct Loans to Buyers	.17

The different expenditures for each proposal require an additional calculation for the expenditure comparison of GNP, employment and taxes. This calculation is the ratio of estimated impacts to estimated expenditure. On this basis it is immediately apparent that the expenditure and budget authorization comparisons lead to a different conclusion. Specifically, as we emphasize in the Chapter 7 discussion of policy implications, the receivable and working capital credit options fare far better in the expenditure comparison than in the budget authority comparison.

5.4.1 G.N.P.

The receivables and working capital proposals stand out in comparison to the other options. As Table 5.8 shows, depending on additionality, each dollar of expenditure results in a 10 to 35 dollars increase in GNP. These loan guarantee expenditures are roughly three times more productive than expenditures on

interest rate equalization and four times more productive than expenditure on a loan program for the foreign purchasers of small business exporters.

Table 5.8

Ratios of Change in GNP to Budget Expenditures for Small Business Export Credit Policies

Policy Type	GNP/Budget Expenditure Low Additionality - High Additionality
Receivables Credit	11.60 - 34.50
Working Capital Credit	10.82 - 32.29
Interest Rate Equalization	3.83 - 11.48
Direct Loans to Buyers	2.71 - 8.00

Data on GNP are found at Table 5.4; estimated expenditures for each policy are found in Chapter 4.

5.4.2 Employment

The employment comparison produces similar results. Rather than present each proposals employment years to expenditure ratio for high and low additionality, we have chosen to express the employment expenditure relation in terms of expenditure per job, as shown in Table 5.9. Unlike the other comparisons in the report, in this case lower absolute values indicate greater impacts, i.e., low expenditures per job means more employment creation per dollar spent.

Table 5.9

Expenditure per Employment Year for Small Business Export Credit Policies

(Dollars)

Policy Type	GNP/Budget Expenditure Low Additionality - High Additionality
Receivables Credit	2882 - 965
Working Capital Credit	3085 - 1033
Interest Rate Equalization	8698 - 2899
Direct Loans to Foreign Buyers	4162 - 1232

Again, the receivables and working capital guarantee programs stand out in registering substantially lower expenditure to generate an employment year. To digress, the expenditures per job ratios of all of the options compare quite favorably with more aggressive employment creations programs, for example public works, where cost per job could range between 8 and 10 thousand dollars per employment year. This comparison has even more appeal when it is recognized that the employment created by the policies to stimulate small business exports is "high quality" private sector.

5.4.3 Taxes

Since we have assumed tax levels to be proportional to GNP, the comparison among policies for tax revenues impacts gives the same results as the GNP comparison.

The loan guarantee programs produce substantially more tax revenues per dollar of expenditure than the other options. One

way to compare the federal tax impacts of the proposals is to answer the question, "what level of additionality, new net exports, is necessary for the federal government annual tax inflows to equal estimated expenditures?" This "break even" comparison dramatizes the superiority of the receivables and working capital programs, as shown in Table 5.10.

Table 5.10

Additionality Levels for Tax Inflows/Estimated Expenditure Break Even

Policy	Additionality Level
Receivables	15%
Working Capital	16%
Interest Rate Equalization	45%
Direct Loans to Buyers	61%

These results are only suggestive of budgetary break even levels as our average tax rate includes payroll and employment taxes. Unlike the other comparisons the tax inflows discussed in this section are for the **initial** impact only, so that annual inflows are compared with annual outflows. On this basis, we find that the loan guarantee programs need only achieve about 15% additionality to break even. On the other hand, the IRE policy would have to generate additionality of around 45% for annual tax inflows to equal estimated expenditures. While the IRE additionality level for break even is higher, it should be noted that an appropriate policy design could probably insure that this level of additionality is achieved.

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5.5 INDUSTRY DISTRIBUTION OF MACROECONOMIC ECONOMIC IMPACTS

The macroeconomic impacts of the credit policies to stimulate small business exports can be partially disaggregated the two digit industry level. The disaggregated analysis is presented for a billion dollars worth of small business exports. As has been shown in the preceding section, income, employment, and tax revenue are directly related. In this analysis, we focus only on the distribution of jobs. However, it can be assumed that the income and tax distributions are similar.

Our estimate of employment years created after 18 months by a billion dollars worth of small business manufactured exports is 51,100. This total may be broken down into direct, indirect, and induced effects as indicated in Table 5.11.

Table 5.11

Direct, Indirect, and Induced Changes in Employment from One Billion Dollar Increase in Small Business Exports.

Type of Change in Employment	Thousands of Jobs	Proportion of Total (%)
Direct	17.8	35
Indirect	12.7	25
Induced	20.6	40
Total	51.1	100

Direct Jobs are easily disaggregated into two digit SIC codes, as shown in Table 5.12. Most employment generated by small business exports is concentrated in heavy manufacturing, primary metals, fabricated metals, machinery, electrical and electronic, and transportation (SIC 33-37).

Table 5.12

INDUSTRY DISTRIBUTION OF DIRECT EMPLOYMENT

SIC	MANUFACTURING SECTOR	TOTAL EMPLOYMENT BY INDUSTRY	PERCENT OF TOTAL EMPLOYMENT
20	Food and Kindred Products	787	4.42
21	Tobacco Products	19	0.11
22	Textile Mill Products	348	1.96
23	Apparel, Other Products	751	4.22
24	Lumber and Wood Products	969	5.45
25	Furniture and Fixtures	103	0.58
26	Paper and Allied Products	268	1.51
27	Printing and Publishing	388	2.18
28	Chemicals and Allied Products	795	4.47
29	Petroleum and Coal Products	21	0.12
30	Rubber and Miscellaneous Plastic Products	429	2.41
31	Leather	126	0.71
32	Stone, Clay and Glass Products	254	1.43
33	Primary Metal Industries	542	3.05
34	Fabricated Metal Products	1453	8.17
35	Machinery, except Electric	6306	35.45
36	Electric, Electronic Equipment	1560	8.77
37	Transportation Equipment	683	3.84
38	Instruments, Related Products	954	5.36
39	Miscellaneous Manufacturing Industries	1030	5.79
	TOTAL MANUFACTURING	17786	100.00%

Indirect and induced employment is less easily assigned. Our estimate of indirect changes in employment is closely tied to as yet unreleased U.S. Department of Commerce data. Induced effects are by enlarge distributed across all sectors and within the manufacturing sector in a way similar to the distribution of all employment.

CHAPTER 6

STATE EXPORT CREDIT INITIATIVES: APPLICATION OF THE MULTIPLIER METHODOLOGY

Our analysis has so far focused on small business export impacts at the national level. The methodology, however, can be applied to state level initiatives to produce estimates of income, employment, and revenue effects. In this brief example we analyze the macroeconomic effects of two state-level policy options:

- A working capital credit program administered by the state of California identical in substance to that described in Section 4.2.

- An export receivables credit program administered by the state of New York identical in substance to that described in Section 4.1.

In applying the methodology to an actual state export credit initiative, the question of additionality and specific elements of program design would necessarily differ. In our example, we maintain the additionality range (25% to 75%) used in the national analysis. Similarly, expenditure multipliers, default and administrative cost and tax rates may vary by state. However, for this illustrative analysis we use the same parameters developed in the previous chapters.

The applications we present are meant to be illustrative. The evaluation of an actual state initiative would involve a more detailed program analysis and a search for more state level employment and export data. In any case the results presented below demonstrate the methodology developed in this study can be very useful in evaluating state level (or regional) initiatives.

As in the preceding analysis the range of estimated impacts represent the high and the low ends of the additionality range.

6.1 CALIFORNIA EXAMPLE

The following are our estimates of the income, employment, and tax impacts of a one hundred million dollar working capital credit program implemented in California. The procedures of estimation are as follows:

First, the direct gross small business export effect is estimated, and the additionality range applied to produce an estimate of new small business exports generated by the program. Given our assumptions, the net export estimates range from 108 million dollars to 323 million dollars.

Second, GNP effects are estimated based upon new exports generated with the appropriate expenditure multiplier (see Table 6.1).

Table 6.1

GNP Growth: Working Capital Credits Program for $100 Million by California

(millions of dollars)

	Initial Effects	Effect After 18 months	Total Effects
Low Additionality	108	76	184
High Additionality	323	226	549

Third, the aggregate employment impact estimate is developed from estimates of GNP changes and the distribution of initial changes in small business export sales across industries (See Table 6.2).[1]

Table 6.2

Employment Years: Working Capital Credits Program for $100 Million by California

	Initial Effects	Effects After 18 months	Total Effects
Low Additionality	3316	1564	4880
High Additionality	9919	4653	14572

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[1]We have used the Origin of Manufactures distribution of direct exports as a starting point and estimated small business sales and direct employment as in Chapter 5. For indirect employment we again use the U.S. DOC ratio of direct to indirect employment and merely prorated the nationwide indirect figure according to the state direct employment to nationwide direct employment ratio. This procedure would certainly be improved if the current U.S. DOC work and the Origins of Manufactured Export can be reconciled.

The jobs directly created in the initial round (40%) would all be in California. Since the California economy is one of the largest in the country, it can be safely assumed that half of the second round and induced jobs would be created in the state. Smaller states would be able to capture less of this effect. We estimate that the program will account for between 5,800 and 10,200 jobs in California and 1,480 to 4,370 jobs elsewhere in the U.S.

Finally, an estimate of the overall tax effects for the California program are given in Table 6.3.

Table 6.3

Taxes Guaranteed: Working Capital Credits Program for $100 Million by California (millions of dollars)

	Initial Effects	Effect After 18 Months	Total Effects
Federal			
Low Additionality	27	19	46
High Additionality	81	58	139
State & Local			
Low Additionality	11	8	19
High Additionality	32	23	55
Total			
Low Additionality	38	27	65
High Additionality	113	71	194

6.2 New York Example

As with the California example, we estimate state level impacts for a one hundred million dollar budget authority. Rather than the working capital program used for California, the New York

example uses an export receivables credit program designed on the same basic lines as the national program described in Section 4.2.

First, the direct gross small business export effect is estimated and the additionality range applied to produce estimates of new small business exports generated by the program. Given our assumptions, this range is 68 million dollars to 203 million dollars. (See Table 6.4)

Second, given new exports and applying the appropriate expenditures multiplier, GNP effects are estimated in Table 6.4.

Table 6.4

GNP Growth: Export Receivables Credit Program for $100 million by New York

(millions of dollars)

	Initial Effects	Effects After 18 months	Total Effects
Low Additionality	68	48	116
High Additionality	203	142	345

Third, estimates of aggregate employment effects are based on GNP changes and the distribution of initial changes in small business export sales across industries. (Table 6.5)

Table 6.5

Employment Years: Export Receivables Credit Program for $100 Million by New York

(Number of Jobs)

	Initial Effects	Effect After 18 months	Total Effects
Low Additionality	2417	988	3405
High Additionality	7215	2923	10139

For New York, our estimate of direct small business employment is about 40% of total employment change. As in the California example, we assume half of the remaining person years of employment are internalized to the state. Thus, the program accounts for 2,400 to 7,170 jobs created in New York and 1,000 to 2,970 elsewhere in the U.S. Finally, total tax effects for the New York program are estimated to range from $41 to $121 million. (See Table 6.6)

Table 6.6

Taxes Generated: Export Receivables Credit Program for $100 Million by New York (millions of dollars)

	Initial Effects	Effects After 18 months	Total Effects
Federal			
Low Additionality	17	51	29
High Additionality	51	36	87
State & Local			
Low Additionality	7	5	12
High Additionality	20	14	34
Total			
Low Additionality	24	17	41
High Additionality	71	50	121

CHAPTER 7

POLICY IMPLICATIONS

The analysis presented in this report has implications for a U.S. policy to revitalize the small business export sector. On balance, the comparisons of economic impacts, program design and delivery considerations and our assessment of the competitive circumstances confronting U.S. firms suggest a two-pronged thrust.

- An on-going loan guarantee program combining export receivables and pre-export financing with strict participation criteria to guarantee high additionality. This program could be entirely funded by the federal government or a mixed federal/state funding formula, with states providing some portion of the budget authority.

- A stand-by interest equalization program (IRE) financed by the federal government, to be triggered when a foreign government intervenes in international markets beyond some set levels.

Further features of this policy approach include:

1. The policy is directed to benefit "high performance" firms, that have effective export potential but are limited by current exporting bottlenecks.

2. The program is self financing, as explained below.

3. Rigorous and credible additionality criteria are provided as safeguards to ensure high new export impacts. For example, only new to market or new to export firms could be eligible.

4. The approach is useful both as a counter-cyclical and on-going policy tool.

In the remainder of this chapter, we describe these options and draw upon the study results to support our recommendation to consider this two-pronged policy approach.

7.1 A SHORT TERM LOAN GUARANTEE PROGRAM FOR EXPORT RECEIVABLES AND PRE EXPORT WORKING CAPITAL

Our analysis distinguishes between two loan guarantee programs, one for export receivables and the other for pre-export working capital. Nonetheless, the similarities between these options -- as seen both by the firm and by policy makers -- are even more important. These similarities, indeed, lead us to recommend that the two be combined into a single programatic option. For the firm, both options increase access to short-term credit and

enhance the firm's balance sheet i.e., enhanced credit lines, whether for working capital or export receivables. From the policy makers' perspective both options are relatively low risk and low expenditure, but have high impacts and high additionality, if properly structured. Finally, these loan guarantee programs should have a minimal disruptive effect on domestic and international capital markets.

The short-term loan guarantee program would thus be a combination of the export receivables and working capital proposals. In brief, these programs cover:

- Export receivables financing guarantees that would be provide for up to 65% of such receivables, at market rates for 180 days. Commercial banks would dispense the loan and assume the unguaranteed portion of the loan.

- Pre-export working capital would be offered for 90 days for up to 50% of input costs, not to exceed $2 million per firm.

Program funds might be divided between options on the basis of user demand. As is evident in our comparisons of the options (see Chapter 5 and Section 7.2), the two guarantee programs are

not substantially different in their economic impacts so that the rationale for the programs holds for virtually any split between the two.

Reviewing the policy impact comparisons, it is apparent that the loan guarantee options are clearly superior to the IRE, if judged on an expenditure basis. The IRE policy is, however, strongest judged on a budget authority basis. We have chosen to use projected actual expenditures (i.e. default, administration costs plus subsidies) as the primary basis for judging among policies. The findings are, therefore, as follows:

- The loan guarantee programs generated sufficient additional tax revenues to pay back expected program expenditures within 1 year.

- The loan guarantee programs were very productive in generating increased GNP, registering three times the return of the IRE policy, and four times the return of direct loans to foreign buyers.

- The loan guarantee programs were most cost effective in generating high quality private sector jobs, requiring only a third of the expenditures per employment year compared to the IRE program.

As we have emphasized throughout the study, additionality is a key consideration in program design. Using the expenditure criterion, we can calculate the level of additionality necessary for total federal tax inflows (including FICA and Social Security) to equal estimated expenditures. The two loan guarantee programs again prove superior as indicated in Table 7.1.

Table 7.1

Level of Additionality Necessary for Federal Tax Inflow to Equal Expenditures for Selected Export Credit Options

Option	
Receivables	15%
Working Capital	16%
Interest Rate Equalization	45%
Direct Loans to Buyers	61%

For the loan guarantee program to cover its costs from new federal tax inflows, only 15% of the exports covered by these programs would have to be additional or new exports. It should be noted that our tax revenue estimates include employment and payroll taxes, items usually not included in federal revenues. Without these inflows, the additionality level necessary to break-even might increase to 25%. On the other hand, we should also note that the default rate we used to estimate this expenditure payback period is on the high side of the likely range. If defaults were less, the additionality levels necessary to break-even would be even lower.

There is little question that additionality should be an important design feature of the loan guarantee program. We suggest that eligibility for program funding be limited to firms (or to specific export orders) meeting at least one of the following three criteria.

- That it be new to export.
- That it be new to the particular export market.
- That firms show improvement in export performance, after entering the program (e.g., annual 5% increase in export sales over the average of preceding three years).

During periods of serious international trade recessions, criteria for participation should be relaxed to reflect the increased difficulty in making export sales. For example, participating firms could retain their eligibility if they held their historic sales levels, or did not lose as much sales as the industry or overall average.

Appropriate additionality criteria, however, must also take account of the business cycle effect on domestic credit conditions and the value of the dollar. Thus, relaxation of these criteria might be triggered by high international interest

rate differentials and/or the over valuation of the dollar. In this fashion, U.S. small business exporters would not be penalyzed by business cycle problems beyond their control.

We recognize that application of the additionality criteria will require careful definition of terms. For example, what is "new" to a market? Or when is a downturn in overseas demand "prolonged"? These and other questions will require further study and go beyond the terms of reference of this report. However, the human resource infrastructure U.S. DOC now has in place through its U.S. and Foreign Commercial Service affords a low cost means to design, test and evaluate various additionality criteria.

Administrative problems will inevitably arise. With reference to administrative costs, however, we feel that our assumed cost levels (Chapter 4) are based on adequate data but will need to be fully reviewed before program planning proceeds further. The eligibility standard can be flexible or inflexible, but we would argue for flexible standards that sacrifice additionality in the initial period, while firms become acquainted with the facility. Such a stance would lower administrative confusion and create a larger client base, even though the net additionality would be initially lower.

7.2 A STAND BY INTEREST RATE EQUALIZATION PROGRAM

International markets increasingly are battlegrounds for an economic struggle among the industrialized countries. The discussion in Chapter 4 of credit competition is part of a larger picture. The profusion of programs offered by both OECD nations and developing nations includes domestic industrial subsidies, exchange rate manipulation, tied aid, and trade agreements and measures to protect domestic markets. The possibility is greater today than at any time during the last thirty years that the post-war movement towards free trade will collapse, leading to contracting markets and an across-the-board decrease in economic welfare.

In this context it is most appropriate that the United States create a stand-by arsenal of aggressive trade policies, such as the stand-by IRE program discussed in this study. Such a stance is fully consistent with the U.S. role as a leader in the free trade movement and the dominant economy of the West. A stand by program which could be activated, for example, by executive order, and perhaps require Senate approval within sixty days, could help protect U.S. interests if the slide toward trade chaos continues. A more hopeful view is that it would deter others from initiating policies which bring on a deterioration of the trade system.

The design of the IRE must thus meet several standards:

- o Be manifestly fair, and usable by the U.S. only in retaliation and as a deterrent.

- o Be capable of rapid response, without undue legislative or administrative procedural requirements.

- o Have an installed capacity for verifying interest rate subsidies that would trigger the IRE.

- o Be self financing.

The advantages of establishing, an IRE program are principally found in its use as a bargaining tool or retaliatory threat against other countries. The IRE should not be conceived nor designed to give a "first strike" capability for an international trade war. Faced with a U.S. able to react rapidly to verifiably unfair subsidization, U.S. trading partners will be forced to channel export promotion activities into acceptable lines.

A few observations need to be made on the need for rapid response, and for an installed verification capacity.

The threat of U.S. retaliation loses its seriousness if burdensome barriers to action are imposed. It should be possible for the responsible administrative authority to initiate the IRE program for specific countries and/or industries when evidence of unacceptable subsidies is presented and verified. The activated IRE program would continue until the competing subsidies were withdrawn. It is, of course, feasible to provide for a Congressional override of Administration decisions, either as a check against a too enthusiastic application of the criteria, or to assure that Congressional intent is followed.

With respect to the verification procedure, the U.S. and Foreign Commercial Service of the U.S. DOC provides an excellent, in place instrument. The staff is trained and competent to observe trade conditions, and must in any case be continuously aware of the competitive situation for U.S. based exporters. Since they are already on-site in the countries of major trade importance, they are able to respond rapidly to inquiries or carry out needed investigation. The U.S. and Foreign Commercial Service might, indeed, be provided specific instruments and techniques of trade monitoring that would provide U.S. DOC with an Early Alert capability.

The level of unacceptable interest rate subsidy which triggers an IRE response will need to be specified with care. It is obviously not simple to establish such criteria.

Internationally accepted standards of what is or is not a subsidy have been vigorously debated for decades. In addition, differences in underlying interest rates among countries creates "natural" disparities which do not constitute subsidies.

A 1960 GATT Working Party agreed that three export credit measures were obvious subsidies to exporters:

- Government export credit guarantees, with premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit institutions.

- The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed.

- The government bearing all or part of the costs incurred by exporters in obtaining credit.

These subsidies were all widespread and openly available in GATT member countries until the 1975 "Gentleman's Agreement" in OECD, and the subsequent formalization of the "Arrangement" in 1978, 1980, 1981 and 1982. (See also Section 2.4 above.)

There are several ways that official export credits may involve what are called in trade negotiations "potentially troublesome subsidies." One case occurs when the credits carry interest rates above the OECD Arrangement Uniform Moving Matrix (UMM) level (see Table 2.1 above), but below the "cost of money" to the government. Alternatively, interest rates may be above the levels of the UMM and the government's cost of money, but below commercial rates.

The wide differences in underlying interest rates among industrial countries complicate attempts to distinguish interest rate subsidies from non subsidies. Japan and Switzerland, particularly, have had market interests rates consistently 3 to 8% below levels in the U.S. or Eurocurrency markets. Credits to equivalent borrowers denominated in Yen or Swiss francs carry lower non subsidized interest rates and better conditions than can dollar, pound or french franc credits. One solution, that has not yet received major support, would require that export credits be denominated in European Credit Union (ECU) units or SDRs, thus eliminating this source of non comparability among credit programs.

The self financing potential of a stand-by IRE deserves careful attention since this would create additional advantages for the proposed two-prong program package. An IRE, once in use, becomes self financing only after 12 to 18 months of continuing operation, assuming additionality of 45%. But during the stand-

by phase, before the IRE is triggered, self financing is obviously not necessary. If the triggered IRE operates for less than 12 to 18 months self financing is also not assured.

Self financing of the stand-by IRE is feasible, however, as a result of increased tax revenue flows of an ongoing loan guarantee program. Once the guarantee program reaches its break-even point, it generates a surplus of tax revenues over budget expenditures. Setting those surpluses aside and placing them in an interest earning trust fund earmarked for the IRE would make the stand-by IRE self financing.

APPENDIX

STUDY BY THE STAFF OF THE U.S.

General Accounting Office

Efforts To Promote Exports By Small, Non-Exporting Manufacturers

Only 12 percent of the Nation's 252,000 manufacturers market their products overseas. Available information, however, indicates that many more small U.S. manufacturers could begin to export if they had the right assistance to overcome impediments to doing so. Trade missions and fairs appear to be good ways of overcoming their apprehensions and unfamiliarity with exporting.

GAO/ID-83-21
JANUARY 18, 1983

P R E F A C E

Export expansion is viewed as a key part of current economic recovery efforts and can have economywide benefits. Yet, only 12 percent of the Nation's approximately 252,000 manufacturers are exporters. It was recently estimated, however, that 11,000 small, export-capable firms could be induced to try to export if properly approached and assisted and that the value of exports by such firms could amount to more than $4 billion a year.

Our study discusses the impediments preventing small firms from exporting, public and private efforts to encourage more such firms to export, and the value of trade missions and fairs in further assisting them to do so. It is intended to provide Congress, the executive branch, and other interested parties with information on the potential for expanding the U.S. export base by increasing export participation by small, non-exporting firms.

We found that public and private export promotion efforts may not be contributing as much as they could because many programs and services do not single out small non-exporters. Similarly, we noted that very few small, non-exporting firms are recruited to participate in trade missions and fairs, even though such events can be particularly useful because they help these firms overcome their lack of familiarity with the export process and their apprehensions about doing business in foreign countries.

In gathering this information we interviewed small manufacturers; State and regional officials responsible for export promotion efforts; representatives of commercial banks and export management companies; and officials of the Commerce Department, Small Business Administration, and Export-Import Bank. We observed trade fairs in Germany and Singapore and accompanied trade missions to Egypt, Saudi Arabia, Peru, and Chile.

Frank C. Conahan
Director
International Division

STAFF STUDY BY THE U.S.
GENERAL ACCOUNTING OFFICE

EFFORTS TO PROMOTE EXPORTS BY SMALL, NON-EXPORTING MANUFACTURERS

D I G E S T

The administration views the expansion of exports as a key component in the Nation's economic recovery program. Some of the economywide benefits that could accrue include a more productive economy, higher income, and a larger tax base at the Federal, State, and local levels. Benefits for businesses that export include the opportunity for increased profits and return on investments and greater economic stability. Yet, only 12 percent of the Nation's approximately 252,000 manufacturers are exporters. (See p.5.)

GAO made this study to determine if more small manufacturers could begin to export. It examined the potential for increasing exports of small manufacturers and the impediments preventing them from doing so. GAO also reviewed what the public and private sectors were doing to encourage more firms to export and observed several trade missions and fairs to get an indication of their value.

MORE SMALL MANUFACTURERS COULD EXPORT

No single definitive study identifies small manufacturing firms that are both capable of and interested in exporting. However, the Department of Commerce estimated that another 11,000 manufacturers--the vast majority of which are small--were both capable of exporting and could probably be induced to try exporting if they were properly approached and assisted. Based on data in the Commerce study, GAO estimates the value of exports that would be obtained by non-exporting firms with 250 or fewer employees at $4.2 billion annually. A number of other studies support the conclusion of the Commerce study that the potential for increased exports does exist. (See p. 5.)

Indications are that small businessmen are reluctant to export because of little or no knowledge of the export market or process, indifference toward exporting, or preoccupation

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with the domestic market. Some small manufacturers view exporting as being too risky, too complex, or beyond their capabilities. (See p. 7.)

PUBLIC AND PRIVATE EXPORT PROMOTION PROGRAMS

A wide range of export promotion programs are offered by Federal and State governments and the private sector. In some cases these efforts have only recently begun to single out small non-exporters, while in others no such effort is made.

A variety of private sector organizations, including export management companies and banks, are involved in facilitating exports. GAO's examination of the roles of these two types of organizations showed that they generally do not try to serve small, non-exporting manufacturers, presumably because they do not see sufficient profit potential relative to other clients. (See p. 12.)

TRADE MISSIONS AND FAIRS CAN HELP SMALL MANUFACTURERS TO GET STARTED IN FOREIGN MARKETS

Trade missions and fairs can be particularly useful to small manufacturers with export potential because the individualized assistance provided can help them overcome their lack of familiarity with the export market and process and their apprehensions about doing business in foreign countries. (See p. 16.)

Commerce and three of the four States visited by GAO--Florida, Illinois, and Texas--have recruited few small, non-exporting manufacturers. For example, GAO estimated that in 1980 less than 1 percent of 3,433 firms that participated in Commerce trade missions and fairs were small manufacturers that had never exported before. GAO observed several trade missions and fairs and noted that the participants were personally assisted and provided with meaningful contacts with potential customers and distributors. (See p. 17.)

OBSERVATIONS

Public and private institutions offer a range of export promotion programs and services, but many do not single out small non-exporters. As a result, these programs and services may not have contributed as much as they could to increased exports by such firms. Studies of the potential for expanding the export base offer some support for increasing the participation of small, non-exporting firms.

Trade missions and fairs can help small manufacturers with export potential to become familiar with the export process and overcome their apprehensions about doing business in foreign countries. These events are not being used as much as they could be.

AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce direct its trade specialists to identify and counsel a specific number of small manufacturers in order to get them to start exporting. After we had prepared our draft for its review, Commerce began in September 1982 to fully implement a system for targeting small, non-exporting firms. Because Commerce reports that most of its services are directed to small firms, that it is now attempting to focus on prospective exporters, and that these efforts will be tracked via a revised management information system, we see no need at this time to retain our proposal.

We had also proposed that Commerce set a goal for recruiting small non-exporters to participate in trade missions and trade fairs because of the very low rate of participation by such firms. Commerce disagreed, stating it believes it would be more productive to select prospective small business participants on the basis of which firms can benefit from such involvement rather than to meet a quota. Commerce said that implementation of our proposal for fiscal year 1983 activities under the Small Business Export Development Assistance Program would be disruptive because participants, work schedules, etc. are committed already. Commerce also said, however, that if it is directed to continue the program after fiscal year 1983, the setting of goals could be discussed with the staff of the Senate Committee on Small Business.

CHAPTER 1

INTRODUCTION

Providing export assistance to all businesses, including small businesses, is a Presidential and congressional objective as well as an ongoing responsibility of the Department of Commerce and other Federal agencies. The administration believes that existing foreign trade promotion efforts must be more conscientiously targeted to small businesses to help them gain access to foreign markets. In 1980, the Congress declared that it is in the national interest to systematically and consistently promote and encourage small business participation in international markets.

According to the Chairman of the President's Export Council, the Nation needs an aggressive export strategy that encourages more firms to start exporting, thereby broadening the export base. The administration views the expansion of exports as a key component in the Nation's current economic recovery program. Some of the economywide benefits that could accrue include a more productive economy, higher income, and a larger tax base at the Federal, State, and local levels. Benefits for businesses that export include the opportunity for increased profits and return on investments and greater economic stability.

This study discusses the interest in and potential for more small manufacturers 1/ to export, the impediments preventing them from exporting, what the public and private sectors are doing to encourage more firms to export, and the value of trade missions and fairs.

FEDERAL, STATE, AND PRIVATE EFFORTS TO ASSIST EXPORTERS

Three Federal agencies--the Department of Commerce, the Small Business Administration (SBA), and the Export-Import Bank (Eximbank)--have responsibilities relating to international trade and small businesses.

The Department of Commerce is the lead agency for promoting exports. It has budgeted $86.4 million for fiscal year 1983 to stimulate and assist business to competitively market goods and services around the world. This mission is carried out by the International Trade Administration, which provides export assistance through its headquarters and 47 district offices located in industrial and commercial centers throughout the United States. In 1980, Commerce's Foreign Commercial Service was created to

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1/ For purposes of this study, small manufacturing firms are defined as those having 250 or fewer employees.

support and represent American trade and investment interests abroad, particularly export expansion. The Service maintains operations at 124 locations in 65 countries. The aid offered includes marketing assistance and development and support of trade missions and fairs.

SBA's export promotion activities are similar to but not nearly as extensive as those of Commerce. SBA also provides financial assistance in the form of Federal loans and loan guarantees which can be used for export purposes.

Eximbank is an independent Federal agency that helps to finance the sale of exports with direct loans and loan guarantees. It also provides information on the availability of financial assistance through commercial banks.

State development agencies and commerce departments provide assistance to exporters within most States. In 1980, 49 States had varying levels of program activities directed at enhancing international trade.

Within the private sector, about 800 export management companies (EMCs) act as export departments for a number of manufacturers. They solicit and transact business in the name of the manufacturers they represent, usually for a commission, salary, or retainer plus commission.

More than 250 banks have international departments with specialists familiar with specific foreign countries or various types of commodities and transactions. This banking network enables exporters to find export financing assistance for themselves or their foreign customers.

RECENT CONGRESSIONAL ACTIVITIES

In recent years, the Congress addressed certain international business policy issues, some of which affect small business manufacturers. The Small Business Export Expansion Act of 1980 (Public Law 96-481, Oct. 1980) authorized Commerce to award grants and contracts to public or private entities that demonstrate the capability to counsel small firms on all aspects of exporting. The Act authorized $1.5 million to be appropriated in each of fiscal years 1981, 1982, and 1983 and directed that a small business international program be established within each of Commerce's 10 regions. The successful applicants must be able to provide market analyses of the export potential for small firms and to develop contacts with foreign customers. Commerce started accepting applications under the Act in April 1982 and had selected grantees by November 1982. The agency has obligated $2 million for this program.

In October 1982, legislation was enacted to encourage exports by facilitating the formation and operation of export trading companies. This new law, the Export Trading Company Act of 1982 (Public Law 97-290, Oct. 1982), may help the small manufacturer because trading companies will handle all international aspects of exporting, including selling the firm's product and handling related legal, financial, and shipping matters. The law permits U.S. commercial banks to own equity shares of trading companies and provides greater assurance that the activities of those entities will not make them liable to antitrust actions.

OBJECTIVES, SCOPE, AND METHODOLOGY

This study was made to determine if more small manufacturers could begin exporting. We reviewed the potential for increasing exports of small manufacturers and the impediments preventing them from doing so. We looked at what the public and private sectors were doing to facilitate exports and we observed several trade missions and fairs to get an indication of their value for small manufacturers. We did not make a cost-benefit analysis of Federal programs designed to promote exports.

To determine the number of export-capable firms, we reviewed an estimate, prepared by a Commerce task force in March 1978, which addressed the Government's role in promoting exports.1/ We also examined data developed by other studies.

We assessed the impediments to exporting by reviewing numerous studies, surveys, and research reports about export motivation and behavior prepared by academicians, Government agencies, and others interested in export promotion. We supplemented this review by personally interviewing 75 U.S. small manufacturers, concentrating on those doing business in Florida, Illinois, Massachusetts, and Texas. Many of these firms had done only limited exporting. We also contacted State officials who have responsibility for export promotion programs in these four States as well as representatives of commercial banks and export management companies.

We reviewed reports and records and interviewed officials from Commerce, SBA, and Eximbank. This included visits to Commerce's district offices in Boston, Chicago, Houston, and Miami.

We interviewed officials of the Small Business Development Centers at the Universities of Georgia and Wisconsin and representatives of the Massachusetts Port Authority and the Port Authority of New York/New Jersey. We also reviewed congressional

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1/ "A Survey of Business Needs in Export Marketing--Federal and Non-Federal Sources of Assistance."

testimony and reports prepared by the U.S. Chamber of Commerce and other groups.

We observed international trade fairs in Cologne and Munich, Federal Republic of Germany, and in Singapore. We also accompanied trade missions to Cairo, Egypt; Jidda and Riyadh, Saudi Arabia; Lima, Peru; and Santiago, Chile. We interviewed participants of these events as well as officials of the Commerce and State Departments who assisted the participating American firms.

CHAPTER 2

MORE SMALL MANUFACTURERS COULD EXPORT

No single definitive study identifies small manufacturing firms that are both capable of and interested in exporting. Relevant surveys, studies, and other similar data, however, indicate that there is a potential for many more small manufacturers to begin exporting. Small manufacturers appear to refrain from exporting because they are preoccupied with the domestic market, have little or no knowledge of the export market or process, or view exporting as too risky.

ESTIMATES OF NUMBER OF FIRMS THAT COULD BE EXPORTING

The March 1978 Commerce study 1/ estimated that approximately 30,000 (12 percent) of the Nation's 252,000 manufacturing companies were involved in exporting and an additional 18,000 (7 percent) were capable of exporting. Of these 18,000 firms--the vast majority of which are small--Commerce estimated that 11,000 (61 percent) could probably be induced to try exporting if properly approached and assisted, while the other 7,000 (39 percent) would remain indifferent to exporting. Based on data in the Commerce study, we estimate the value of exports that could be attained by non-exporting firms with 250 or fewer employees at $4.2 billion annually. 2/

The Commerce study's methodology consisted primarily of an analysis of data in the U.S. Census Bureau's 1972 Census of Manufacturers and related Survey of the Origin of Exports of Manufacturing Establishments in 1972. The Commerce study also included an analysis of the type of export assistance needed by U.S. industry. This was accomplished by sending questionnaires to 4,900 firms selected randomly.

We considered studies prepared by the Port Authority of New York/New Jersey and surveys by the State of Illinois and the University of Wisconsin. We also reviewed data compiled by Commerce and SBA which identifies small manufacturing firms that have expressed interest in exporting.

Although the response rates in some studies were somewhat low and measuring export interest was difficult, there is a consensus that many small manufacturing firms not now exporting are both capable of and interested in exporting.

1/ See footnote 1 on p. 3.

2/ This figure was derived from data expressed in 1972 dollars, which we updated to 1981 dollars by using Commerce's implicit price deflator for merchandise exports.

New York/New Jersey Port Authority study

In 1980, as part of a program designed to bring smaller firms into the export market, the Port Authority identified export-capable firms in the New York and New Jersey area by screening computer lists obtained from a private industrial directory publisher. These lists were divided into exporters and non-exporters and contained the names, numbers of employees, and products of 27,000 companies. After matching the products of the non-exporting firms with those of known exporters of similar size, the Authority identified approximately 2,600 small manufacturing firms considered to be capable of exporting.

Illinois survey

In 1975, the State of Illinois sent questionnaires to 14,800 manufacturers listed in Thomas Register, the Illinois Directory of Manufacturers, or in certain Commerce documents. The objective of the survey was to determine the manufacturer's involvement or interest in exporting. Responses were received from a little more than 5,000 firms (34 percent) and about 2,000 of these firms (40 percent) were already exporting. Of 1,699 small, non-exporting manufacturers that responded to a question concerning their export interest, 1,408 (83 percent) indicated they were interested in exporting.

University of Wisconsin
survey of export potential

In 1979-80, the University's Small Business Development Center made an informal combined telephone and door-to-door survey of Wisconsin's 8,200 manufacturers--7,800 of which are small-sized. Using U.S. Government standard product codes and trade account data, the Center's staff initially identified 6,800 firms that "might be" capable of exporting. Further screening showed that 900 of these small manufacturers (13 percent) were exporting and another 3,600 (53 percent) could be considered export-capable because of the type of products they manufactured. Half of these 3,600 firms also expressed an interest in exporting. The Center's staff estimated conservatively that about 360 (20 percent) of the 1,800 firms possess the right mix of capability and interest to be good prospects for the University's export promotion programs and services.

Commerce data

In 1980, Commerce attempted to establish a computerized source of up-to-date information on foreign markets, customers, and other trade leads. Applications to participate in this effort were sent to about 387,000 U.S. firms selected from a Dun and Bradstreet data base, State development agency sources, trade association membership rosters, and Commerce's Trade Opportunity Program subscriber list. Some 19,000 (5 percent)

responded. At GAO's request, Commerce analyzed applications from 9,200 of these firms and found that 1,900 (21 percent) were small manufacturing firms interested in becoming exporters. About 10,000 applications were not analyzed because the data was not processed before the program was discontinued.

SBA data

In 1978, SBA distributed applications to about 350,000 firms, selected from various SBA sources, U.S. Government vendor lists, and Commerce Business Daily subscribers, inviting them to register as potential suppliers of materials and supplies for Government contracts. Nineteen percent (64,800) of those invited to register did so. Approximately 35,150 small manufacturers responded, of which 15,700 (45 percent) said they were not exporting currently but were interested in doing so.

WHY SMALL BUSINESSMEN ARE RELUCTANT TO EXPORT

The major impediments to be overcome for more small businesses to enter the export market can be put into three distinct but related categories. First, there is clear evidence that many small businessmen have little or no knowledge of the export market or the export process. Second, small firm managers are preoccupied with the large domestic market and do not need to export to make profits; therefore, they lack strong motivation to export. Lastly, some small manufacturers refrain from getting involved in exporting because it is perceived as being too risky, too complex, or beyond their capabilities.

Lack of awareness

In 1980, Commerce identified and cataloged over 100 research reports dealing primarily with export behavior and motivation. The studies were prepared by academicians, government agencies, and others interested in export promotion. After reviewing 35 of these reports as well as the results of other documented investigations, we noted that many small manufacturing firms reported they were not exporting because they had little or no knowledge of the export market.

Surveys by the National Federation of Independent Business 1/ and the University of Georgia 2/ prominently illustrate this lack of awareness. The Federation study shows that 69 percent of the

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1/ Export Information Survey, prepared for the SBA, Oct. 1974.

2/ A. G. Kefalas, Export Involvement by Smaller Firms: A Survey of Exporters and Non-Exporters, Small Business Development Center, Athens, Ga., 1979.

respondents surveyed were not awa.e of export assistance provided by Commerce and 76 to 89 percent were not aware of export assistance available through other Federal agencies and the private sector. Significantly, the Georgia survey, made 5 years later, addressed the same issue and resulted in similar findings; the vast majority of respondents in this survey were small manufacturing firms without prior export experience. In the Federation study, the vast majority of respondents were small non-exporters and a sizable percentage were also manufacturers. The results of these studies are summarized below.

Awareness of Available Export Assistance

Source of export assistance	Independent Business Survey No. of respondents Aware	%	Unaware	%	Survey No. of respondents Aware	%	Unaware	%
Department of Commerce	250	31	562	69	51	27	140	73
Eximbank	122	16	645	84	25	13	161	87
Foreign Credit Insurance Association	82	11	675	89	23	12	162	88
Export management companies	84	11	659	89	21	11	180	89
Large banks	183	24	575	76	47	25	138	75

Commerce research also shows that small businessmen are not aware of the export assistance the Department provides. Its 1978 evaluation of export needs 1/ showed that more than 70 percent of 4,900 small firms surveyed were unaware of four of Commerce's low client-cost programs. These programs provide specific market information and direct leads on overseas customers.

Indifference toward exporting

Fewer firms are involved in exporting than could be because of indifference on the part of their owners and managers. For example, 41 percent of the manufacturing firms in the Federation survey did not export because they were not interested and 34 percent in the Georgia survey were not interested. Overall, more than 50 percent of the firms that responded to these surveys said they were not interested in receiving information about exporting.

A former Director of Commerce's Office of Market Planning once stated that indifference to exporting on the part of small businesses was one of the primary reasons many firms did not export. According to that Director, this attitude has prevailed among many firms with exportable products because they are too

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1/ See footnote 1, p. 3.

occupied with U.S. markets. Similar views were expressed by trade specialists assigned to the Commerce district offices we visited in Boston, Chicago, Houston, and Miami. Moreover, the administrator of the Small Business Development Center Trade Program at the University of Wisconsin told us that the vast majority of small manufacturers in Wisconsin are indifferent to exporting.

Perception of risk

Many small manufacturers regard exporting as too risky, too complex, or beyond their capabilities. The small businessmen we interviewed mentioned numerous concerns in this regard, particularly

--fear of not being paid;

--differences in culture and languages of foreign marketplaces;

--benefits not being worth the risk; and

--mechanics of exporting--documentation, packaging, financing, shipping, etc.--are not known.

In one of the studies 1/ we reviewed, the risks and fears associated with exporting that were identified involved the collectibility of debt, understanding of foreign business practices, and the compatibility of the product with foreign consumer standards. Responses received from 423 of the 816 manufacturers that completed questionnaires mentioned one or more of these factors.

1/ Warren J. Bilkey and George Tesar, "The Export Behavior of Smaller-Sized Wisconsin Manufacturing Firms," Journal of International Business Studies, Spring/Summer 1977.

CHAPTER 3

PUBLIC AND PRIVATE EXPORT PROMOTION PROGRAMS

The Federal Government, State governments, and the private sector offer a wide range of export promotion programs and services. In some cases these efforts have only recently begun to single out small non-exporters, while in others no such effort is made. According to a report, "Export Promotion Functions and Potential Export Disincentives," submitted by the President to the Congress in September 1980, the efforts of the Federal agencies have not been sufficient to attract more small firms into the exporting business. The report states that many American companies are not taking full advantage of export opportunities. Some of the impediments identified include a lack of knowledge about how to export and uncertainties about business practices abroad.

Commerce, the lead Federal agency, recently began to single out small, non-exporting firms in order to get them to start exporting. In most cases, the programs run by State agencies are directed at all types of firms, regardless of their size or experience in international trade. Private sector organizations, such as export management companies and banks with international trade capabilities, also do not single out small, non-exporting manufacturers.

GOVERNMENT EFFORTS TO ENCOURAGE SMALL MANUFACTURERS TO START EXPORTING

Commerce Department

The objective of Commerce's trade development activity is to provide marketing services to help businesses--principally small and medium-sized businesses--increase their exports or begin to export. To accomplish this goal, Commerce provides businessmen with export outreach assistance through its district offices and with support and program services, including trade missions and fairs, through its Washington headquarters and Foreign Commercial Service posts.

In the past, Commerce programs and services focused on small and medium-sized firms; however, they did not differentiate between exporters and non-exporters. As a result, efforts by Commerce trade specialists (who perform day-to-day counseling and other export-related services) tended to be directed primarily toward companies with some export experience. Trade specialists we spoke to explained that the reason for this is that larger firms or firms with previous export experience offer a potentially better return on invested time and energy.

Beginning in October 1981, Commerce started to make a number of changes in the way it identified firms for export promotion activities. Foremost among these is a requirement that each of the 47 district offices contact a specific number of firms that have not previously sold their products or services in any foreign country. This is a positive step toward expanding the nation's export base.

Small Business Administration

SBA, as a part of its overall mission to assist small businesses, provides export-related services to interested firms, including financial assistance and counseling for current and prospective exporters. Counseling is provided by SBA staff or by volunteers--the Service Corps of Retired Executives and the Active Corps of Executives--many of whom have international trade experience.

Information on exporting is disseminated through seminars and workshops, many of which are jointly sponsored with Commerce's district office personnel. SBA also provides various export counseling services through its network of field offices and through cooperative efforts with colleges and universities; for example, the Small Business Institute program uses international business students to gather overseas market information. Similarly, students under the supervision of faculty of international trade development centers situated within Small Business Development Centers prepare export market feasibility studies.

A new financial assistance program for exporters is a revolving line of credit program, which was authorized by the Small Business Export Expansion Act of 1980 but not implemented until June 1982. SBA estimates that in fiscal year 1982 about $10 million in loans were made to small businesses wishing to penetrate and develop foreign markets.

Eximbank

Eximbank efforts include an export credit insurance program it operates jointly with the Foreign Credit Insurance Association (FCIA). FCIA underwrites commercial credit risks, while Eximbank covers political risks and certain excess commercial risks. A senior vice president of FCIA estimated that, from the program's inception in 1978 to June 1982, 384 policies were issued to small businesses, less than one half of which were manufacturers without prior export experience.

Eximbank also operates a small business advisory service to provide information on its programs and those available from commercial banks. The mainstay of this program is a toll-free "hotline" to respond to questions that exporters may have about financing overseas sales.

AGENCY COMMENTS AND OUR EVALUATION

Commerce commented that its programs and services have differentiated among small, medium, and large firms, stating that "management directives and strategic planning objectives have called for priority effort geared to small and medium sized firms. The Department's United States and Foreign Commercial Service (USFCS), in particular, is charged with working with these firms."

We agree that Commerce's export promotion efforts have been directed to serving small firms. Until recently, however, these efforts were not focused on prospective exporters. For example, its export-related reporting forms until very recently did not provide for a breakout of small, non-exporting manufacturers. Therefore, Commerce could not assess the extent to which it was serving this group. Furthermore, prior to October 1981, Commerce's operational definition of new-to-export firms was so ambiguous that businesses with prior export experience could be, and often were, counted as non-exporters in the then-existing reporting system. However, in September 1982 Commerce showed us a newly revised reporting form that might provide the kind of differentiated information on small, non-exporting manufacturers that had been unavailable previously.

STATE PROGRAM ACTIVITIES

The States have export promotion activities similar to those of Federal agencies. According to a March 1981 survey by the National Governors' Association, 1/ 37 States provide the broad range of services offered by their Federal counterparts, including market information, general export assistance, and opportunities to participate in trade shows and missions. All but one of the 50 States allocate some funds to promote their involvement in international trade. The States spent about $17 million in fiscal year 1980 for export promotion activities. Overall, many States provide services to firms irrespective of their export experience, size, or type of business. (See ch. 4 for additional information on selected State programs.)

PRIVATE SECTOR ACTIVITIES--EXPORT MANAGEMENT COMPANIES AND BANKS

EMCs--companies that act as a client's export sales department--do not play as large a role in their dealings with prospective small exporters as might be expected. Prospective and actual

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1/ The Committee on International Trade and Foreign Relations, National Governors' Association, Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action, Washington, D.C.

small business exporters we spoke with have reservations about whether EMCs can meet their needs. For example, some of these businessmen said they are not particularly fond of having a middleman promote their products and they question the EMCs' ability to effectively market highly technical products. Also, although they understand the EMCs' rights to protect their information and distribution channels, they resent the small amount of feedback they get on what was done to promote their products. Several exporters advised us that the services provided them by EMCs were relatively expensive; for example, some EMCs require startup expenses that can range from $5,000 to as much as $50,000, and commissions and discounts can range from 10 percent to as much as 40 percent of a product's wholesale selling price.

The somewhat limited role of EMCs in terms of small non-exporters is also explained by the fact that most of the estimated 800 of them are small enterprises with three or fewer managerial/sales employees. In many instances they are simply too small to provide the full range of services required by small non-exporters. In addition, EMCs often lack sufficient capital to deal with diverse product lines simultaneously.

The other side of the coin of small business complaints that EMCs are too expensive is the judgment that small, non-exporting manufacturers do not represent sufficient profit potential. EMCs that participated in some recent Commerce efforts to match them with prospective exporters did not show enough sustained interest to justify continuing the efforts.

Banks with the capability to support international trade generally have large, internationally experienced companies for clients. Smaller firms represent less profit potential for the banks, while at the same time possibly requiring greater time and effort to be assisted in the export process.

Given the small non-exporter's characteristic lack of knowledge about international trade, coupled with the comparatively small average transaction size, bankers find it difficult to set their fees at a reasonable level and still be adequately compensated for their time and effort. Similarly, because of the small firm's lack of experience, bank representatives are put in the position of having to handle an undue number of routine chores for which they are not adequately compensated.

OBSERVATIONS

Public and private institutions offer a range of export promotion programs and services, but many of their efforts do not single out small non-exporters. As a result, these programs and services may not have contributed as much as they could to increased exports by such firms. Studies on the potential for expanding the export base offer some support for increasing the participation of small, non-exporting firms.

AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce direct its trade specialists to identify and counsel a specific number of small manufacturers in order to get them to start exporting. After we had prepared our draft for its review, Commerce began in September 1982 to fully implement a system for targeting small, non-exporting firms. Because Commerce reports that most of its services are directed to small firms, that it is now attempting to focus on prospective exporters, and that these efforts will be tracked via a revised management information system, we see no need at this time to retain our proposal.

CHAPTER 4

TRADE MISSIONS AND FAIRS CAN HELP SMALL MANUFACTURERS TO GET STARTED IN FOREIGN MARKETS

For over two decades, Commerce has organized and sponsored trade missions, trade fairs, and other marketing events which are available to U.S. businesses interested in entering foreign markets. It is Commerce's policy to fully recover costs associated with the events. Many States and private businesses also sponsor trade missions and buy booth space from trade fair organizers. To varying degrees, 47 of the 50 States encourage businesses to participate in these events. The costs to attend are set by the sponsor. Because of the potential profits involved, private fair organizers are becoming interested in international trade fairs and related export promotion events. Commerce is implementing ways to get the private sector more involved in recruiting and managing these events.

LIMITED PARTICIPATION BY SMALL MANUFACTURERS

Our review showed that Commerce's promotional programs do not specifically focus on or target small manufacturers that have never exported before. Instead they are used principally by firms that are already engaged in exporting. Our analysis of Commerce's records for fiscal year 1980 1/ showed that 171, or about 5 percent, of 3,433 firms participating in trade missions and fairs had no prior export experience. We randomly selected 35 of the 171 firms and determined that actually only 4 were small manufacturers that had never exported before; overall, we estimate that less than 1 percent of the 3,433 firms are in this category.

Florida, Illinois, and Texas recruited few small, non-exporting manufacturers for trade missions and fairs during October 1978 through September 1980, as shown below.

--Florida recruited 93 participants and our review of records available on 75 of them and our discussions with Florida officials showed that none were small manufacturers that had never exported before.

--Illinois recruited 62 participants and our review of records available on 49 of these showed that none were small manufacturers that had never exported before.

1/ According to Commerce, the information we received may contain some errors or omissions.

--Texas recruited 64 participants and our review of records available on 41 of these showed that only 1 was a small manufacturer that had never exported before.

In contrast, the Small Business Export Program of the Massachusetts Port Authority was more effective in recruiting small prospective exporters. The Authority reported that, from November 1977 through December 1979, 31 small manufacturers participated in five trade missions to Western Europe. Ten of the participants were small manufacturers that had never exported before. The others were primarily small manufacturers that had done only limited exporting prior to going on the trade missions. The 31 firms reported export sales of about $5 million. The Authority's success in getting these firms to start exporting is due mainly to its focus on small businesses that have not engaged in any significant export activity. The Massachusetts Port Authority Program's apparent success demonstrates that small manufacturers with little or no export experience can be recruited for trade missions.

USEFULNESS OF TRADE MISSIONS AND FAIRS

The trade mission and trade fair programs sponsored by Commerce and the four States provide participants with good opportunities to make export sales and to sign sales representatives and distributors for their products. The Small Business Export Expansion Act of 1980 recognizes the usefulness of these events. Under the terms of the Act, small business international marketing organizations are being formed which, among other things, will sponsor or promote such trade missions and fairs.

Commerce's Assistant Secretary for Trade Development told us that trade missions and fairs are the best and quickest ways to get small manufacturers to start exporting. Also, many of the firms we contacted commented favorably on the appropriateness of trade missions and fairs as a way to get small firms to start exporting.

Commerce tracks and reports on sales made during trade missions and trade fairs. Available Commerce records for fiscal years 1980 and 1981 showed that 149 trade mission participants reported a total of 2,227 sales leads as a result of the missions. Immediate sales reported by the participants averaged about $60,000. During the same period, Commerce sponsored 103 trade fairs which resulted in immediate sales of about $200 million. These data were not analyzed to assess the extent of incremental sales.

Our on-the-spot observations of trade missions and fairs confirm that these events can be particularly useful to small manufacturers because participants are personally assisted and provided with meaningful contacts with potential buyers and distributors.

These events also familiarize the participants with the export process and help overcome apprehensions about doing business in foreign marketplaces. Some of the events we observed are discussed below.

Commerce trade mission to Egypt and Saudi Arabia

Commerce sponsored a telecommunications trade mission to Egypt and Saudi Arabia in November and December 1981. The eight participants were escorted through customs and accompanied to their hotel, where Embassy and Commerce personnel briefed them on the local business environment and economic outlook. Later, they attended private meetings with potential customers, agents, and distributors. A typical participant had about 10 to 15 meetings scheduled over 3 to 4 days at each post.

Commerce organized group meetings with selected foreign government agencies, and the principal American officer at each post held a reception to facilitate and further develop local business contacts. Government officials, businessmen, potential customers, agents, and distributors were invited to these meetings. Additionally, Commerce provided commercial intelligence, coordinated incountry publicity, pre-screened potential customers and agents, and handled the logistics involving language, communications, and transportation.

Each participant had to pay travel and living expenses and a $1,900 fee for the shared promotional, operational, and hospitality costs of the trade mission. The objective of most firms was to obtain exposure to the market, develop some contacts and leads, and perhaps establish a distributorship. The firms reported 75 sales leads and contacts with 78 prospective sales representatives. One firm reported immediate sales of $360,000. All participants believed that the mission was worthwhile.

Florida trade mission to Peru and Chile

Florida sponsored a trade mission to Lima, Peru, and Santiago, Chile, in August 1981 for 13 firms interested in selling transportation and construction equipment and consumer products. Embassy personnel met the participants at the airport and escorted them to their pre-registered hotel rooms, so they did not have to go through separate customs or passport checks. Prior to the trade mission, the Embassy's commercial staff mailed a brochure to about 1,200 local businessmen, trade associations, and banks identifying the mission members and describing their products.

Participants attended briefings by the American Ambassadors on political and economic conditions. More than 570 appointments were scheduled and participants considered most of these to be of the highest quality. The appointments, ground transportation, receptions, and translators were all arranged by the American

Embassies. The firms had only to keep their scheduled appointments, which were held at conference rooms in their hotels.

The participants were pleased with the way the trade mission was organized and coordinated between the State of Florida and the American Embassies. They reported immediate sales of about $543,000, 12-month projected sales of about $13.4 million, and four sales representatives signed. One of the participants commented that:

> "* * * no one from our company has ever traveled to South America to get a feel for the market and the people. Since we have had many prospects/contacts we have felt the need to develop our knowledge.* * * this trade mission was the easiest way to do it. I found it to be perfect for a company that had never traveled to South America previously. The trade mission coordinators provided definitive information on the economics of the countries, and also made interpreters available. Also, the commercial attaches and other residents of the country were there for consultation."

Florida assessed each trade mission participant a nominal fee of about $100 for miscellaneous expenses. Participants also had to pay their own travel and living expenses.

International Trade Fair--Munich

Commerce sponsored an exhibition stand at an international trade fair in Munich in October 1981, and 61 American computer firms attended the event at the U.S. Pavilion. Commerce coordinated and handled all the logistical arrangements necessary for setting up the pavilion stand, including shipping the firms' equipment and placing it in the display area. The participants only had to set up their equipment and attend to the display booths.

Commerce and Embassy staffs were knowledgeable and helpful. The assistance provided the participants included

--placing newspaper advertisements;

--preparing a catalog listing of the participants and distributing it to prospective customers before and during the fair;

--mailing personal invitations to 150 agents and distributors and briefing them on fair activities; and

--holding a special reception for the American firms and German distributors and agents.

Commerce assessed each participant a $3,800 fee for the display booth and the shared promotional, operational, and hospitality costs. Participants also had to pay their own travel, living, and shipping costs. Most of the firms developed sales leads, and 12 reported immediate sales totaling about $1.1 million.

OBSERVATIONS

Trade missions and fairs can be particularly useful to small manufacturers with export potential because the individualized assistance helps them to become familiar with the export process and overcome their apprehensions about doing business in foreign countries. Commerce and three of the four States we visited, however, recruited very few non-exporting firms for these events.

AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce set a goal for recruiting small non-exporters to participate in trade missions and fairs. Commerce did not agree with our proposal. We were advised that some markets may be inappropriate and participation costs may be too high for many small firms. Commerce suggested that a more productive course of action would be to select participants on the basis of which firms can benefit rather than to establish high goals or quotas for small businesses.

We agree with Commerce's observation that participation costs may be an inhibiting factor for some firms. There are, however, many factors beyond firm size that determine appropriate participation, and we would expect that for any mission or fair only qualified participants would be selected. We suggested the idea of a program goal to Commerce because we found that in 1980 only 1 percent of the 3,433 firms that participated in Commerce-sponsored trade missions and fairs were small manufacturers that had never exported before. (See p. 15.)

Commerce also stated that setting goals for activities under the Small Business Export Development Assistance Program would cause serious delays in the 1983 program because the program is in place; for fiscal year 1984 if it is directed to continue the program, the inclusion of such goals could be discussed with the Senate Committee on Small Business.

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ERRATA

Export-Import Bank Financing for Small Businesses

The Senate Committee on Small Business hearing re Export-Import Bank Financing for Small Businesses was inadvertantly not assigned a publication number.

The correct designation is S. Hrg. 98–51.

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